



TIME FOR TIME LIMITS

Why we should end permanent welfare

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BRIEFING PAPER

EXECUTIVE SUMMARY

- The UK's welfare system is in a parlous state, beset by ineffective policies, a culture of dependency, and an ever-increasing price tag. While well-intentioned, recent reforms such as Universal Credit have done little to change this. We must seek more radical reforms to shore up the UK's welfare system and boost employment.
- This in mind, the UK should adopt a 5 year time limit on all out-of-work benefits, with payments withdrawn incrementally to avoid a 'cliff at the end of the period'.
- We can look to President Clinton's reforms of the 1990s for evidence of time limits' effectiveness. Clinton's *Personal Responsibility and Work Opportunity Reconciliation Act* (PRWORA) saw a 6–7% fall in unemployment counts, a decrease in benefits caseloads by 96%, an unprecedented increase in female employment, and a reduction in government spending by an estimated \$54.2 billion between 1996 and 2002.
- While they are no panacea, combined with investment in re-training and up-skilling, time limits on welfare would be a significant step towards fixing the UK's distortional welfare system and breaking the cycle of learned victimhood.

INTRODUCTION

It would be no small exaggeration to say that the British welfare state is in crisis: a crisis of purpose; perpetual crises of policy implementation; and a spending crisis as the welfare bill continues its relentless growth. To quote Giddens: “The welfare state, seen by most as the core of social democratic politics, today creates almost as many problems as it resolves”¹.

Even during the height of the booming noughties there remained a core of unemployed with the Claimant Count bottoming-out at 821,700 (2.7% of the labour force) in February 2005 despite years of strong growth². The Claimant Count of course only measures those eligible for and claiming Job Seeker's Allowance. Unemployment as measured by the arguably more accurate Labour Force Survey showed a more worrying high of 1,384,000 unemployed in August – October 2004³ (a 4.8% unemploy-

¹ Giddens, A. (1998). *The Third Way: The Renewal of Social Democracy*. Cambridge: Polity Press. p. 16.

² CLA01 Claimant Count, ONS, 2011.

³ VACS01 Vacancies and Unemployment, ONS, 2012.

ment rate⁴). The most worrying figures are those of the Economic Inactivity Rate which has remained around 20% (+/-3.3%) since records began in the early 1970s⁵.

Despite the vast array of welfare-to-work programmes under New Labour, followed by the optimistically entitled *Work Programme* under the coalition out-of-work benefits, benefit spending has continued to increase every year since 1997 and spending on Jobseeker's Allowance (JSA) is now over £5bn a year and will remain so for the foreseeable future⁶.

From this broad range of negative measures and indicators it can be argued that there remains a hard core of the UK labour market who suffer from welfare dependency even during periods of strong economic growth⁷.

This paper argues that a radical rethink of the UK welfare state's purpose, implementation and cost is required. By looking across the Atlantic for evidence-based policy ideas this paper argues that an unemployment system with strict time limits has the potential to radically reduce unemployment and increase economic activity.

LEARNING FROM THE UNITED STATES

In 1996, the then US President Bill Clinton signed into law the *Personal Responsibility and Work Opportunity Reconciliation Act* (PRWORA). This was arguably the most radical single piece of welfare reform to have passed through Congress since the Social Security Act of 1935. The results were dramatic. Prior to the law passing the United States was in very much a similar situation to that now faced by the UK: increasing welfare dependency, stagnant growth in some geographical areas of high unemployment, increasing poverty, and an increasingly expensive welfare state.

The PRWORA had a number of important elements:

- It ended welfare as an entitlement programme;
- It ended the out-of-work benefit *Aid to Families with Dependent Children* (AFDC). This provided cash payments to poor parents, the majority of whom did not work and many of whom had children outside of marriage. AFDC was replaced with *Temporary Assistance for Needy Families* (TANF);
- TANF provided assistance for only a limited duration. Most importantly recipients were required to work, and actively penalised were individuals who refused to work and those states that did not require welfare recipients to work. On the other hand it provided rewards for states which did help parents move from welfare to work;

⁴ A03 Labour Force Survey, summary aged 16 to 59/64. 2012.

⁵ These are people who are not in work, but who do not satisfy all the criteria for ILO unemployment (wanting a job, seeking in the last four weeks and available to start in the next two), such as those in retirement and those who are not actively seeking work.

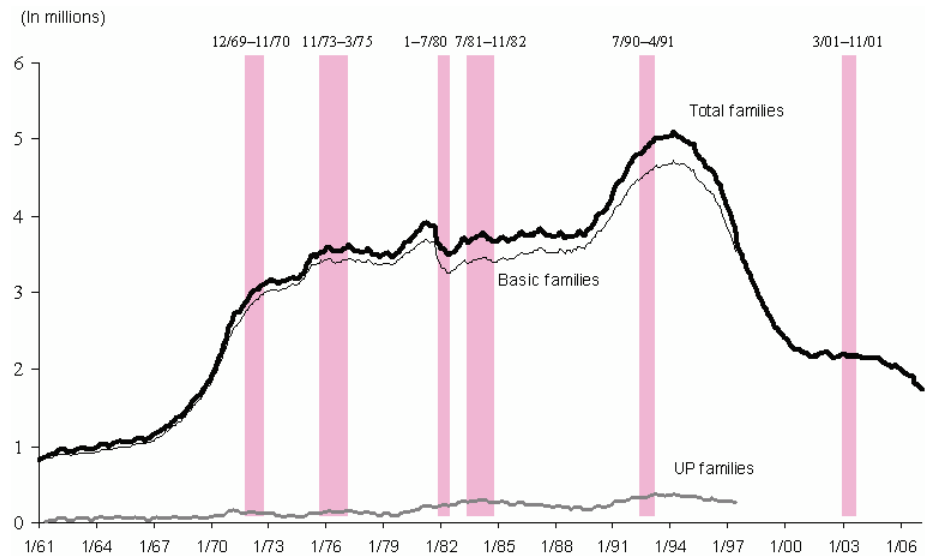
⁶ DWP expenditure and caseload workbook 1948/49 to 2016/17

⁷ In the US a broader range of measures are used by the Department of Health and Human Services in their annual report "Indicators of Welfare Dependence".

- The law discouraged out-of-wedlock births and encouraged the enforcement of child support to re-emphasise the central role of the family in the provision of welfare;
- Overall, it limited federal benefits to a maximum of a 2-year continuous claim and a lifetime limit of 5 years on all benefits paid for by the Federal government.

The result: these reforms led to a massive decline in welfare rolls from 5 million to less than 2 million families by 2006 (as can be seen in the graph below).

FIGURE 1: AFDC/TANF FAMILIES RECEIVING INCOME ASSISTANCE⁸



In some states a decrease in benefits caseloads of 96%⁹, an unprecedented increase in female employment and improvement in their financial status even in low paying jobs^{10,11}, a drop in child poverty, and savings by government of an estimated \$54.2 billion between 1996 and 2002¹². Other observed benefits seen in the US included improvements in the test scores of children from low-income families who moved off welfare¹³, reduced rates of drug use and arrests¹⁴, and also reduced fertility and reduced marriage among young women who are at high risk of welfare receipt¹⁵.

⁸ US Department of Health and Human Services. (2008). Indicators of Welfare Dependence URL = <http://aspe.hhs.gov/hsp/indicators08/apa.shtml#ftanf2> [22/03/13]

⁹ As in the state of Wyoming.

¹⁰ Also supported by Kaushal, N. & Kaestner, R. (2001). From Welfare to Work: Has Welfare Reform Worked? *Journal of Policy Analysis and Management*. Vol. 20. No. 4. pp. 699 – 719.

¹¹ Gennetian, L. A. & Morris, P. A. (2003). The Effects of Time Limits and Make-Work-Pay Strategies on the Well-Being of Children: Experimental Evidence from Two Welfare Reform Programs. *Children and Youth Services Review*. Vol. 25. No.s ½. pp. 17 – 54.

¹² Haskins, R. (2006). *Work over welfare: The Inside Story of the 1996 Welfare Reform Law*. Washington D.C.: Brookings Institute Press.

¹³ Miller, A. R. & Zhang, L. (2009). The Effects of Welfare Reform on the Academic Performance of Children in Low-Income Households. *Journal of Policy Analysis and Management*. Vol. 28. No. 4. pp. 577 – 599.

¹⁴ Corman, H. Dave, D. M. Das, D. & Reichman, N. E. (2013). Effects of Welfare Reform on Illicit Drug Use of Adult Women. *Economic Enquiry*. Vol. 51. No. 1. pp. 653 – 674.

¹⁵ Kaestner, R. Korenman, S. & O'Neil, J. (2003). Has Welfare Reform Change Teenage Behaviours? *Journal of Policy Analysis and Management*. Vol. 22. No. 2. pp. 225 – 248.

Given this dramatic decline in benefit caseloads reforms such as the time limit component of the US PRWORA could be implemented here in the United Kingdom. However, what form could such reform take, and what would the effect be?

The strongest possible reform would be a lifetime limit of 5 years placed on all forms of out-of-work welfare assistance. It would of course be important to break this up into more appropriate time periods to ensure that recipients do not use all of their support in a single 5 year period.

WHAT WOULD THE EFFECT OF TIME LIMITS BE IN THE UK?

Comprehensive econometric analyses have looked at the effect of time limits in the US^{16,17}. These suggest that 6-7% of decreases in unemployment counts, and 12-13% of those in female-headed families, are as a result of the introduction of time limits. Although difficult to estimate the exact impact on the UK labour market ex ante, a similar effect on Claimant Count Unemployment could be expected. This translates to an estimated reduction in the benefit bill of £300-350 million based on current spending.

The latest, and strongest paper, by Andrew C Johnston at the University of Pennsylvania and Alexandre Mas at Princeton looks at the impact of unexpectedly slashing the maximum duration of Missouriian unemployment insurance by 16 weeks¹⁸. They found that even during a period of high unemployment—2011, when Missouri was still recovering from the financial crisis and Great Recession—the benefit reduction led to lower unemployment. In fact, reducing benefit eligibility by just a month led to 15 fewer days of benefit claims, on average, and the 8.6 fewer days spent out of work. Cutting benefits time limits even works during a recession—flexible labour markets have an amazing ability to absorb an influx of new workers.

Although concerns would inevitably emerge that the long-term unemployed would be left without a safety net, the US experience suggests changes in claimant behaviour as time limits provide an incentive to conserve benefits for future use^{19,20}.

16 Grogger, J. (2001). The effects of time limits and other policy changes on welfare use, work, and income among female-headed families. Working Paper No. 8153. NBER Working Paper Series. Cambridge, Massachusetts: National Bureau of Economic Research.

17 Grogger, J. (2004). Time Limits and Welfare Use. *The Journal of Human Resources*. Vol. 39. No. 2. pp. 405 – 424.

18 Johnston, A. C., & Mas, A. (2015). Potential Unemployment Insurance Duration and Labor Supply: The Individual and Market-Level Response to a Benefit Cut.

19 Grogger, J. (1999). Welfare Dynamics Under Term Limits. Working Paper No. 7353. NBER Working Paper Series. Cambridge, Massachusetts: National Bureau of Economic Research.

20 Ochel, W. (2004). Welfare Time Limits in the United States – Experiences with a New Welfare-To-Work Approach. CESIFO Working Paper No. 1210. Institute for Economic Research. Munich: University of Munich.

It would be important to ensure that a good proportion of the initial savings are ploughed back into support for adult education, re-training and up-skilling to prepare the long-term unemployed for work, and to support the newly employed²¹. This is especially important if the newly employed are to be spared the precarious nature of casualised unskilled work. Any future government should not be afraid to support adult education and re-training for workers of all ages as skills and qualifications represent the best insurance against unemployment in the future. Additional schemes should also be developed to help individuals invest in their own education/training such as low-interest loans and small grants.

LIMITATIONS OF TIME LIMITS

It would be wrong to argue that time limits are a perfect solution to the problem of welfare dependency. Welfare time limits have been found to suffer some limitations.

Firstly, instead of being presented with a gradual reduction or change in benefit payments claimants are instead presented with what Hagen (1999) calls “the Welfare Cliff” as they reach the 5-year lifetime limit for receiving assistance from federal funds²². Thus claimants who fail to find work within the time limit are faced with almost immediate destitution if they have not made other plans. Related administrative problems can also arise as individuals may struggle to keep track of how much benefit they have left and therefore when it will end²³.

Secondly, if there are not sufficient private sector jobs available for the unemployed to gain employment with this may put strain on other public and not-for-profit agencies by increasing homelessness, children being placed into foster care, crime, drug use, child abuse and neglect²⁴. However, such fallacious arguments appear to rest on *post hoc ergo propter hoc*. Just because unemployment and criminal behaviour occur together does not mean that one causes the other. A lack of education and other forms of social exclusion offer a better explanation of why such social problems occur concurrently.

²¹ The 2006 Leitch Review of Skills found that despite rising school standards and increasing graduate numbers the UK’s skills based remained weak by international standards, reducing productivity, growth and social justice.

²² Hagen, J. L. (1999). Time Limits Under Temporary Assistance to Needy Families: A Look at the Welfare Cliff. *Affilia*. Vol. 14. No. 3. pp. 294 – 314.

²³ Zedolewskip, S. R. & Holland, J. (2003). How Much Do Welfare Recipients Know about Time Limits? *Snapshots of America’s Families III*. No. 15. Washington D.C.: Urban Institute.

²⁴ Leete, L. & Bania, N. (1999). The Impact of Welfare Reform on Local Labor Markets. *Journal of Policy Analysis and Management*. Vol. 18. No. 1. pp. 50 – 76. Similar complaints of a negative impact on children can also be found in Morris, P. Bloom, D. Kemple, J. & Hendra, R. (2003). The Effects of a Time-Limited Welfare Program on Children: The Moderating Role of Parents’ Risk of Welfare Dependency. *Child Development*. May/June 2003. Vol. 74. No. 3. pp. 851 – 874.

Finally, job-readiness and transportation, what economists would label as occupational and geographical mobility as well as child care would be likely to remain problems even with time limits²⁵.

However challenging, none of these problems present an insurmountable barrier to the effective implementation of time limits in the UK.

CONCLUSION

Current incremental welfare reforms such as the merging of existing benefits into Universal Credit are unlikely to have a strong impact on the culture of dependency that still permeates many corners of the UK labour market. Radical reform is required, and the US has led the way in placing time limits on benefits and ending welfare as an entitlement programme. For too long structural explanations of unemployment have disenfranchised people, from the ability to affect change on their lives, by creating and perpetuating learned-victimhood. If we are serious about tackling the deficit, reducing the national debt and returning to strong growth, we can be left with little scope but to follow the path of successful welfare reform pioneered in the United States. Time limits will re-empower the unemployed to take control of their lives.

²⁵ Albelda, R. (2001). Fallacies of Welfare-to-Work Policies. *The ANNALS of the American Academy of Political and Social Science*. Vol. 577. pp. 66 – 78.