Beware workfare [1]

Written by **Sam Bowman** [2] | Friday 17 February 2012

Workfare ? the policy of tying benefits to work programmes ? has come under scrutiny this week as an unpaid position at Tesco [3] was advertised in a workfare programme. The position was originally advertised as being permanent (which Tesco says was a human error), causing some to accuse Tesco of using "slave labour". Of course, this is silly hyperbole ? real slaves didn't have a choice. But even so, I'm deeply sceptical about the concept of workfare. It strikes me as a tenth-best approach to welfare reform, and may even be worse than the status quo.

Government interventions in the market should aim to distort things as little as possible. Government is short-sighted, bad at handling information, and subject to incentives that rarely line up with those of the public at large. And workfare has the potential to be massively distortional. By requiring government officials to decide which jobs are worthwhile and which aren't, workfare acts as a form of central planning of the labour market.

It's extremely unlikely that governments know better than individuals what is best for those individuals. Yet workfare assumes exactly that. Assuming that people on benefits are too stupid to make decisions for themselves is a Victorian-style paternalism that also underlies the health fascism of minimum alcohol pricing and plain cigarette packaging laws.

The mistake behind workfare is to assume that everybody who is unemployed is idle. Yes, some are. But many are either looking for work, or reskilling to work in jobs that require new skills.

An example might be of a computer programmer who is an expert in the Java programming language. Suppose some new advancement means that her Java skills are no longer in demand on the market. A good path for her might be to teach herself a new language, to build on her existing skills and eventually find a new, skilled job. This would be vastly better for her and the rest of us than if she ended up working an unskilled job flipping burgers at McDonald's. But it is very possible that workfare would do the latter, failing to distinguish between our actively unemployed programmer, and the idle unemployed people it is aimed at.

Some of workfare's supporters point to provisions it makes for retraining, but this is naive and simplistic. Retraining is basically a form of individual entrepreneurship ? trying to anticipate unfulfilled demand in the labour market and meet it with new services. It is a highly individualistic activity that is difficult to categorize and is contingent on each person's interests, skills and experience. The government can't direct it with any hope of success; when it tries to it will inevitably get things wrong. The overall effects may be that workfare pushes potentially skilled workers into unskilled jobs, and mangles the market signals that the unemployed would otherwise be responding to.

There's something deeply unpleasant about the government-corporate relationship that workfare is based on. Firms have to be approved by the government to qualify for the scheme, and as usual it's large, established businesses that can navigate (and maybe manipulate) the state's rules most effectively. Workfare isn't slavery, but I'm not happy with a system that predominantly supplies privileged businesses

with artificially cheap labour, paid for by the state.

The empirical evidence isn't encouraging either. A 2008 report by the Department for Work and Pensions [4] found that "there is little evidence that workfare increases the likelihood of finding work" (h/t Daniel Sage [5]). Workfare's supporters point to Wisconsin's "Wisconsin Works" programme, which did reduce long-term unemployment when it was introduced in the 1990s. But, in the first big recession since its introduction, Wisconsin's unemployment rate has been roughly in line with the national average, and is unremarkable when compared with similar US states:

[6]

But there is a problem with long-term unemployment in Britain and, even if workfare won't help, the status quo isn't much better. No wonder unemployment is so bad ? minimum wage laws effectively ban unskilled (read: low paid) jobs. That means that people cannot get on-the-job training and skills unless they take unpaid internships or work experience. The bizarre result of the minimum wage is that Tesco can hire people for £6.08 an hour, or £0.00 an hour, but nothing in between. Combined with the fact that working means you have to forgo benefits that may be worth more than your wage, it's hard to think of policies that could make long-term unemployment more attractive.

There is a solution that could appeal to a broad base of people and fix most of the broken incentives that unemployed people face:

> 1) Abolish the National Minimum Wage so that unskilled jobs can be created. This will allow more "first foot on the ladder" jobs to be created and give unskilled people a way out of unemployment.
>
> 2) Replace benefits with a tapering income subsidy, similar to the government's Universal Credit, which would supplement the incomes of people on low wages. This should be generous, to persuade some supporters of the minimum wage (who, wrongly, think that it creates some kind of minimum living standard for people) to accept abolition of the minimum wage.
>
> 3) Reduce the income subsidy over time ? say, a year ? so that the initial safety net provides security to people who have been recently made unemployed but does not allow for long-term dependency on welfare.

Workfare is a misguided, statist attempt to fix a problem made by government. By adding even more planning and state control to people's lives, it will end up causing more problems than it solves. Unemployment can be addressed, but only by*removing* government barriers to work, not by adding on more layers of state involvement in people's lives.

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