

'Market Workfare': Social Security, Social Regulation and Competitiveness in the 1990s

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ABSTRACT

A Regulation Approach framework has been adopted to analyse the very rapid period of change in social security policy since the late 1980s. It is argued that the changes can be explained in terms of a number of regulatory dilemmas which emerged or were intensified under neo-liberal capital accumulation. Some of the regulatory dilemmas – high levels of economic inactivity, inflationary pressures consequent to higher employment and low levels of wages – it was thought could be managed through the social security system using what we call 'market workfare'; by which we mean in-work means-tested social security benefits which have some measure of compulsion to work attached, such that it counts as workfare. The aim of in-work benefits is to reduce wages further so that the market can respond by creating more low-wage employment. By this stratagem it is the market which responds to labour demand, rather than the government creating work opportunities. The parliamentary neo-liberal right's approach to 'market workfare' is discussed, and then it is suggested that the marked similarities between New Labour and the previous parliamentary neo-liberal right can be explained because both administrations were attempting to manage the same regulatory dilemmas.

INTRODUCTION

Since the 1970s Britain has undergone profound socioeconomic change. Most importantly the political commitment to full employment has disappeared. While ministers of the previous neo-liberal right administration were willing to talk of full employment, their belief in 'the market' as the

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creator of employment meant that they could not confirm when, and what form 'full employment' would take (see evidence of Anne Widdecombe, Employment Committee, 1994, question 75). However, with labour market flexibility becoming defined as *the* route to full employment, the social security system became captured in a discourse which suggested that the system itself was a barrier to greater levels of employment and economic prosperity.

The aim of this article is to discuss the strategy for change within the social security system inaugurated by the parliamentary neo-liberal right, through which it was hoped that neo-liberal capital accumulation would be buttressed. More specifically, our emphasis is upon understanding the restructuring of the benefit system towards the 'pivotal position in British social security provision' (Walker, 1994, p. 171) which Family Credit (and Earnings Top-up) was to occupy under the former parliamentary neo-liberal Conservative (1992–7) government. Towards the end of the article we also discuss the New Labour government's project which takes forward in-work benefits as 'welfare-to-work'.

THE REGULATION APPROACH AND SOCIAL POLICY

Penna and O'Brien (1996, pp. 46–50) demonstrate the usefulness of Regulation Approach (RA) analysis in the study of social policy. Their comments were informed by Jessop (1991a, b, 1994a, b; also see Peck and Jones, 1995; Peck, 1996) whose recent work on the shift from the Keynesian Welfare State (KWS) to the Schumpeterian Workfare State (SWS), having been critically reviewed in a collection by Burrows and Loader (1994), seems to have had little impact on social policy analyses. We suggest that even if the idea of a tendential shift from the KWS to the SWS is deemed to be of little use, RA analysis on which Jessop's ideas are based, does provide a useful framework for analysing recent shifts in social security policy. Our focus is upon the shift from the Beveridgean notion of contingency benefits of non-employment to the more recent emphasis from both the parliamentary right and left of the importance of social security benefits in the transition from welfare, into work.

The RA emerged as an explanatory framework because of important questions facing Marxists in the 1970s concerning the way in which crises of capital accumulation are managed and how capital accumulation can proceed with relative stability over the long term (Boyer, 1990). There are two concepts central to the RA: the *accumulation regime* and the *social mode of economic regulation*. The *accumulation regime* consists of the 'macro-economic regime sustaining growth in capitalist production and consumption' (Jessop, 1994a, p. 14). The *social mode of economic regula-*

tion represents 'an ensemble of norms, institutions, organisational forms, social networks, and patterns of contact which sustain and "guide" a given accumulation regime' (*ibid.*). The central thesis of the RA is that without a congruent *social mode of economic regulation*, a given *accumulation regime* will falter, resulting in a conjunctural (or major) crisis of capital accumulation. Such crises were witnessed in the 1930s and 1970s (Lipietz, 1987, p. 34). A central element of the *social mode of economic regulation* is social policy (Jessop, 1991a, p. 86). Hence, in contrast to interpretations of social policy as being concerned with the 'needs' of individuals or families, in RA analyses, policies become an important instrument in the governing of capital accumulation (*ibid.*; also Penna and O'Brien, 1996, p. 47).

Jessop argues that in the early 1980s a 'ground-clearing' operation occurred, leaving the way clear for Britain to establish a neo-liberal *accumulation regime* through late 1980s 'radical Thatcherism'. The neo-liberal *accumulation regime*, Jessop (1991b) claims was highlighted by characteristics which included 'liberalization, promoting (*the*) free market'; 'deregulation, giving economic agents greater freedom from state control'; 'internationalization, encouraging the mobility of capital and labour, stimulating global markets' (pps. 146, 147). It is our contention that New Labour's embrace of the 'free market', global capitalism and 'flexibility' (Brown, 1994; Labour Party, 1995, 1997, p. 15) suggests that the *accumulation regime* has changed little (rather unsurprisingly) under the New Labour government.

However, as we have seen, the *accumulation regime* is only one of the central concepts in RA analyses. This article goes on to outline developments in social security policy as an important element of the *social mode of economic regulation*. These developments, the parliamentary neo-liberal right hoped, would buttress and help reproduce the neo-liberal *accumulation regime*. We then discuss policy changes – in particular the emphasis upon welfare-to-work – of the 'new deal' for the unemployed and lone mothers as outlined by the New Labour government in its formative months in office since winning the general election of May 1997.

'Workfare' has been at the centre of debates on social security for the past decade. While both the parliamentary neo-liberal right and the parliamentary left have, in the past, denied any interest in developing workfare policies, or have been critical of such policies¹, there has been much media excitement over the possibility of wholesale workfare being introduced into British social security. However, workfare induces media excitement in almost inverse proportion to the clarity of the concept. It is unclear what is actually meant by the term; what its objectives are; and

hence how it is supposed to meet those objectives (for discussion of the etymology of workfare see Peck, 1998).

DEFINING WORKFARE

Whilst the term 'workfare' conjures up images of coercing into employment all kinds of people who are not working, the concept is actually used in a variety of other ways. In particular, workfare needs to be distinguished from stringent qualifying criteria for relief during periods of labour market inactivity (Costello, 1993). Many commentators assume the idea of coercing benefit-dependent people into work or training in order to receive their entitlements equates with workfare (Walker 1991, p. 1; Musgrove 1991, p. 1). We refer to such an approach as 'traditional workfare'. The implication is that the unemployed would otherwise be lazy, idle scroungers and need the benefit regime to remind them sharply of the discipline of the market. The arguments of Lawrence Mead (1992), for example, reflect this 'traditional workfare' approach. Mead argues that due to the withdrawal from, and evasion of, employment by the dependent poor, they need to be placed upon a trajectory to independence through the compulsion of workfare schemes (*ibid.*, p. 172; see also Deacon, 1997 for a useful summary of Mead's arguments).

Such broad definitions, however, have limited the conceptual value of workfare, for used in that way workfare could be a description of most social security systems requiring the users to actively search for employment on the threat of benefit withdrawal. Furthermore, such definitions miss the point that, in contrast to merely providing benefit-dependent people with some form of employment, workfare is really about creating *more* employment. Hence, we believe that Costello's (1993) definition of workfare is more useful. She notes: 'An operational definition of workfare might be that it forces people to take jobs or forms of training on the job which pay less than the current market rate for the same kind of work' (p. 2).

This conceptualisation of workfare is useful because it highlights two aspects of workfare: its coercive nature; and, more importantly, it identifies the objective of workfare as depressing wage levels. Workfare, she suggests, depresses wage levels by increasing the supply of potential employees who are under the threat of benefit withdrawal. Workfare induces people to accept lower paid jobs than they would have done if 'passive' cash benefits had been available, because the prospect of having to accept a training place or job at less than normal wages deters them from remaining unemployed. Hence, the theory goes, because labour is cheaper, employers will be able to employ more people, thereby reducing unemployment. Arguing from Costello's account, with the example of

the Conservative government's in-work benefits we believe the term 'market workfare' is more appropriate. We use the word 'workfare' because of the coercion to find work introduced with Job Seeker's Allowance (and possibly Parents Plus); 'market' because it is existing and newly created employment in the market which is being filled by those moving from out-of-work benefits, to in-work benefits. Hence, and in contrast to 'traditional' notions of workfare, government has little need to create employment, thus satisfying the parliamentary neo-liberal Right of the last Conservative administration. It would seem that the New Deal of the Labour government (elected in May 1997) develops further this line of thinking in social security, as we explain below.

WORKFARE AND THE PARLIAMENTARY NEO-LIBERAL RIGHT

Despite the plethora of schemes aimed at disciplining the unemployed in the ways of the market which emerged during the reign of the parliamentary neo-liberal right, it might be a surprise to learn that the 'right' were opposed to the notion of traditional workfare. So, for example, in giving evidence to the Employment Select Committee, Anne Widdecombe (then minister of state for employment) argued how: 'Workfare as I defined it before this committee – and my definition was a large scale, national scheme, probably compulsory and in return for benefits – is not on our agenda' (Employment Committee, 1994, question 51).

The objections cited to traditional workfare included cost and a fear of a displacement and substitution of 'market' jobs with state-created or funded employment (*ibid.*, questions 62, 72). Underpinning such contingent objections was the neo-liberal belief that only the free market can be the begetter of genuine employment and wealth creation (*cf.* Hayek, 1944, 1975, 1980). As David Willetts told Parliament, the state cannot plan for such things:

Of course it is frustrating when one sees idle hands when there is unmet need, but it is not the job of the state to make those idle hands meet those unmet needs; it is the job of a properly operating labour market. It is not an enormous command economy directing people into jobs that politicians decide are useful. That is not how a free economy works. (HC Debate, 20 Nov. 1992, col. 532)

For Willetts – then Conservative MP for Havant and intellectual inspiration for the parliamentary neo-liberal right² (Willetts, 1992, 1994) – employment creation is not something in which the state can legitimately become embroiled:

The Government have enormous responsibilities in terms of employment and the labour market. The Government's responsibility is, first, to ensure that there is the right eco-

conomic framework ... Another responsibility of government is to ensure that the labour market works properly ... It is a responsibility which calls for supply-side reforms, which the Government pursued in the 1980s. I hope that they will continue in the 1990s ... I do not think that the Government have a direct rôle to intervene in and run the labour market, and themselves to link idle hands and unmet needs by employing millions of people who would otherwise be unemployed. (HC Debate, 20 Nov. 1992, col. 538).

Essentially, 'traditional workfare' in the form of make-work schemes was anathema to the parliamentary neo-liberal right, who suggested that legitimate state intervention in the market should be reserved for ensuring a stable economic environment to facilitate economic growth and job creation, while developing supply-side measures to ensure people can and will work when their labour is demanded by the market. Such measures included ensuring that incentives to work exist, that the unemployed were available for work; and that the unemployed were actively seeking employment (Willetts, HC Debate, 20 Nov. 1992, cols. 529–30; Widdecombe, Employment Committee, 1994, questions 15, 27). Support for the development of Family Credit; tightening the availability for work provisions; and tightening the 'actively seeking work provisions' were legitimised through such reasoning (Willetts in HC Debate, 20 Nov. 1992, cols., 529–30). A distinction was also being made between testing unemployment (actively seeking and availability for work) and subsidising low wages through in-work benefits. In fact, because it is difficult to have the latter without the former, we can begin to see support for a policy which looks more like workfare as defined by Costello. As importantly, it is also clear that the creation of 'traditional workfare' is believed to be an inhibitor of competitiveness.

SOCIAL SECURITY IN THE 1990S

At the core of the neo-liberal right's attitude there was a paradox: on the one hand, for many years it was argued that the post-war welfare state was a barrier to economic growth and enterprise through having a detrimental effect on individual responsibility and morality (Boyson, 1971, 1978; Miller and Wood, 1982; Murray 1990, 1994; Lilley, 1993). On the other hand, social security policy was interpreted as being a useful mechanism in an increasingly competitive global market. The competitiveness White Papers (DTI *et al.*, 1994, 1995, 1996), for instance, highlighted how recent initiatives in social security policy would, it was thought, aid labour market performance: 'The Government's employment and labour market policies aim to support economic growth by promoting a competitive, efficient and flexible labour market', (DT *et al.*, 1995, p. 101). Such a labour market would be one in which 'unemployed people are helped and

encouraged to compete effectively for jobs' and 'the benefits system provides people with incentives to work' (*ibid.*).

The seeming concordance between employment policy and social security administration was important, for it was clear that the objection of the parliamentary neo-liberal right was not to social security *per se*, but to certain *forms* of social security. Indeed, after Lilley's inauguration as the secretary of state for social security (1992) there was an increasing focus on, and interest in, the ways in which social security benefits interacted with the labour market and labour market policy. One civil servant³, for instance, noted how in the Department of Social Security: 'I suppose it was really probably until Mr Lilley arrived – we had not really seen ourselves as having a strong interest in labour market policies...'

In RA terms the focus upon the relationship between the labour market and social security policy goes some way to help explain the very rapid period of change which has been witnessed in social security policy since the early 1990s. It was hoped that the development of 'market workfare' would help overcome some of what RA analysts describe as 'regulatory dilemmas' of neo-liberal capital accumulation. Because RA analysts see the reproduction of capital accumulation as being a socially embedded process, the social regulation of the labour market comes in many, varied forms 'ranging from formal labor [*sic*] law to socially embedded work norms, from employers discrimination to union action' (Peck, 1996, p. 11). Hence, in RA analyses when there is seemingly a problem in the labour market (for example, high unemployment or low wages), it is conceptualised not as a mismatch between supply and demand, but a 'regulatory dilemma' which reflects the complexities of the social regulation of labour (*ibid.*, p. 17). Labour market 'problems' therefore are the result of the myriad of often contradictory socially and institutionally embedded regulatory forms. The term 'regulatory dilemma' also reflects the fact that there is a diversity of responses which social regulators may try to implement. Overcoming labour market problems therefore is seen as a dilemma, rather than a case of clear-cut answers.

There were, in fact, two important strands in the development of neo-liberal 'market workfare' as an attempt to manage the regulatory dilemmas of neo-liberal capital accumulation: out-of-work benefits and in-work benefits.

Out-of-work benefits

Under the Conservative administration, subtle changes occurred in benefits for lone mothers, the result of which has been the increasing commodification of the 'formal' labour of lone mothers. Although the *familial*

ideological basis of policies such as the Child Support Agency (CSA) has been widely commented on (for critical discussion see Smart, 1987; Abbott and Wallace, 1992; Lister, 1994; Millar, 1994), arguably one of the earliest indications of changing policies towards lone mothers was to be found in the debate and legislation concerning the *employment* related aspects of the CSA. The interaction between in-work benefits and child maintenance were seen as important determinants in encouraging lone mothers back into work through FC:

Receiving maintenance in itself makes it easier to go to work. Maintenance payments are income which the caring parent receives in any circumstances. So, it is a "portable income". It is additional to earnings. Receiving maintenance can also help to make the transition from Income Support into work easier. (Lord Chancellor's Department *et al.*, 1990, p. 41)

The underpinnings of the CSA were as much concerned with labour discipline, as familial ideology. The Lord Chancellor's Department was suggesting that women living on their own who care for their children are at least available for work if not 'technically' unemployed. So, maintenance was defined as a 'portable' income which is of more benefit to mothers if they are in employment, even if they are in receipt of FC. The 'official line' was that whilst such measures may be beneficial to lone mothers wishing to return to employment, whether they actually did so was their choice (*ibid.*; also see the comments of Tony Newton, then secretary of state for social security, HC Debate, 29 Oct. 1990, col. 731).

Debates about lone mothers moving into employment via in-work benefits *through exercising their own choices* came before 1993: 'the year of the lone parent' (Mann and Roseneil, 1994; Roseneil and Mann, 1996). The emphasis since then has been on encouraging lone mothers to leave full benefit dependency and take employment without making them sign on as unemployed.

The piloting of the Parents Plus (PP) scheme (DSS press releases 96/202; 96/266) operationalised this employment focus by putting lone mothers in contact with the labour market. The Benefits Agency claim that 'no pressure will be put upon those who do not wish to look for work, but the case workers will ask them why [*they do not want to work*]. This would identify any barriers to employment' (*Touchbase*, 96/97, no. 7, p. 2). In the context of savage ministerial and media condemnation of lone motherhood, however, such disclaimers about coercion seem feeble, for pressure already exists upon lone mothers to leave benefit dependency through the stigma of being labelled as feckless scroungers, responsible for breeding irresponsible and delinquent children (*cf.* Lilley, 1992; Redwood, 1993; note also Labour party, 1997, p. 25; Frank Field's 'men-

tor proposals' for potential young never-married mothers as long-term dependants upon the state, BBC Radio 4, *PM* programme, 11 Aug. 1997). Indeed, whilst the erosion of benefits for lone mothers aims to make them economically 'less eligible', the stigmatisation of lone mothers is aimed at making them 'socially less eligible' (cf. Ginsburg, 1979, p. 48). Moreover, evidence suggests that lone mothers would prefer to be financially independent of the benefit system, but economic barriers to moving into employment, such as a lack of affordable child care are often difficult to negotiate (Marsh and McKay, 1993; McKay and Marsh, 1994; Ford *et al.*, 1995). In addition, decisions for lone mothers to work cannot be divorced from 'gendered moral rationalities' of how they 'hold understandings about their identity as mothers, and as lone mothers in particular, and their responsibilities towards their children' (Edwards and Duncan, 1996a, p. 5; 1996b).

Turning to those people 'technically' defined as unemployed by the state, the most fundamental change to affect unemployed claimants since the conception of the post-war welfare state was the implementation in October 1996 of the Job Seeker's Allowance (JSA). The most important aspect of the JSA from our perspective is its attempt to 'improve the operation of the labour market' (DE & DSS, 1994, p. 5), for: 'The legislation will... improve incentives to work, remove barriers that discourage people from leaving benefit and focus the efforts on looking for work' (Michael Portillo, then secretary of state for employment, HC Debate, 10 Jan. 1995, col. 47). Broadly speaking, the JSA does not allow applicants to refuse jobs on the grounds of hours, wages or conditions of employment. Moreover claimants cannot determine a minimum wage for which they are willing to work without risking an accusation of not being available for work. To confirm such details, claimants must sign a Jobseeker's Agreement which *inter alia* covers any restrictions on hours or pattern of availability, type of work, action to be taken to seek work and improve prospects. Restrictions and refusals may result in benefit suspensions (see Murray, 1996; Finn, 1997).

Essentially the JSA is an elaborate mechanism for ensuring that the discipline of the market is rigorously enforced, and that the level of benefits do not provide an incentive to become or remain unemployed. In fact, the restructuring of unemployment benefits are closely linked to increasingly flexible labour market change: 'The basic condition for benefit receipt – that individuals should be available for and actively seeking work – will be better attuned to the conditions of the labour market' (DSS, 1995, p. 9).

What is clear from the discussion of policy initiatives for lone mothers

and unemployed claimants under the parliamentary neo-liberal right is that the emphasis was upon 'encouraging', (with various degrees of coercion), benefit-dependent people to take employment. However, the new policy thrust eschewed the old-fashioned 'contingency' approach of the Beveridge tradition, instead seeking a *rapprochement* between social security and free enterprise in an attempt to manage some of the dilemmas of neo-liberal accumulation.

In-work benefits

Family Credit (FC) was introduced as part of the 1986 Fowler Reforms. Its purpose is to supplement the income of people, with dependent children, working full time⁴ who are deemed to be in receipt of low wages. The rationale for the introduction of FC was an attempt to tackle the 'poverty trap' and hence 'avoid the position, which can occur now where net family income can be reduced as earnings rise over significant ranges of earnings' and to 'ensure that families do not find themselves worse off in work than they would be if they are not working' (DHSS, 1985, para. 4.46). FC therefore was presented as an incentive measure aimed at encouraging people to take low paid employment by attempting to ensure that they will have a higher income in work, compared with their benefit income. FC also tries to ensure that families keep *increases* in their earned income once they are in employment by not clawing back benefit against wage increase pound for pound⁵. Hence FC *should* make even the lowest paid employment more financially attractive – so long as the prospective entry level worker has children. Although progress has been slow, take-up of FC has improved so that by February 1997 over 730,000 families with dependent children were in receipt of FC (DSS press release 97/108).

All the considerations which apply to families with children about 'entry level' low wages and consequent differentials in relation to benefit income also apply, in an economic sense, to childless couples and single people. The only justification for restricting FC to families with children first has to be primarily political. It could be that there is a judgement about children as innocent parties who should not bear too directly the burden of poverty visited upon their unemployed parents – though the more likely reason is that the extra dependants' allowances which children attract have to be off-set to make low-wage work attractive! Enter the Earnings Top-up (ETU) pilot scheme, as the measure announced in the 1994 Budget to manage the dilemma for childless couples and single people (DSS, 1995).

ETU is paid on similar grounds to FC and its objectives are similar, to make low paying employment more financially attractive by subsidising

wage levels: 'The pilot of the Earnings Top-up aims to overcome the disincentive to work inherent in any social security system, especially for those with limited earning power' (*ibid.*, 1995, p. 2). The implications are clear. Entitlements to out-of-work benefits inherently contain disincentives which are likely to be greatest for those who can *normally* expect to earn low wages.

The take-up of ETU has been rapid. Just four months after its launch in October 1996, it was announced that 'over 7,500 people are now benefitting from this new initiative' and that it 'was estimated that 20,000 people would be in receipt of ETU by the end of the three year pilot and, on current trends, it is likely that this target will be achieved easily' (DSS press release, 97/026).

THE RELATIONSHIP BETWEEN IN-WORK AND OUT-OF-WORK BENEFITS: MARKET WORKFARE

Under the previous Conservative administration we witnessed the initial stages of an important transition in the objectives of social security. Previously the system had been geared to relieving need on the understanding that claimants did not do paid work. The Beveridge plan (Beveridge, 1942) itself was constructed around contingencies which interrupt the ability to work in the labour market. The main condition for the receipt of benefits was that recipients did not work (very much or at all). One civil servant, for example, told us that the thrust of social security was moving:

more to saying, 'you must do what work you are capable of and we will top up your income a bit', whereas before it was all or nothing... it was a condition of being sick or unemployed that you did not do any work to get your benefit. That is now changing.

Under the parliamentary neo-liberal right, it was increasingly becoming a condition of benefit receipt that the applicant did some work in the market. To ensure this happened there was to be an increasingly close relationship between out-of-work and in-work benefits:

JSA will be part of a more unified system of in-work and out-of-work benefits designed to minimise the effects of the 'unemployment trap' and reduce the disincentives for the unemployed and their partners to find work. (Department of Trade and Industry *et al.*, 1995, p. 107)

Such a close relationship between out-of-work and in-work benefits, however, meant that Britain was rapidly heading towards a situation in which 'market workfare' was becoming an integral part of the benefit system. Our notion of 'market workfare' differs subtly from Costello's model outlined earlier, for whilst the JSA (and perhaps PP) acts to ensure

there is a pool of labour to fill available vacancies, the dynamics of in-work benefits, as we shall see, were being deliberately engineered to further reduce wages. We use the term 'market workfare' because it is not the government who are creating the employment on which this system of workfare is dependent. We have seen that the parliamentary neo-liberal right were opposed to the idea of traditional workfare because of the role the state would have in such schemes and the alleged distortions which would be entrained for the market. In market workfare such perceived problems do not exist because no demands are made upon government to create employment. In contrast, access to employment is controlled by the market and its agents. The interesting question, which we now turn to is, why has market workfare been developed in the 1990s?

MARKET WORKFARE AND NEO-LIBERAL CAPITAL ACCUMULATION

We have seen that in RA analyses the *accumulation regime* has to be 'guided' by a congruent *social mode of economic regulation* if that regime is to be reproduced. It is our contention that the development of market workfare was part of the development of a neo-liberal *social mode of economic regulation*, for it was hoped (there can be no guarantees as the *social mode of economic regulation* is never complete and constantly changing) that in-work benefits would overcome some of the regulatory dilemmas of neo-liberal capital accumulation. Despite a discourse that suggested that their aim was to reduce as far as possible the role of the state in the provision of social security benefits, clearly even the parliamentary neo-liberal right understood that 'the market' could not be left 'free' from regulation (*cf.* Jessop, 1994a, p. 29, 1994b, p. 267). In fact, with the deregulation and liberalisation of the market, several regulatory dilemmas emerged or were intensified, which the state tried to manage through intervention in social security policy. These problems included: first, stagnantly high unemployment among undervalued⁶ labour, a situation forecast to change little:

The main areas of growth are projected to be in managerial, professional and associate professional jobs. In contrast jobs for craft and skilled manual workers, plant and machine operatives and unskilled labourers will continue to decline. Part-time work will continue on its strong upward path. (Department of Employment *et al.*, 1992)

Such trends have led some commentators to claim there has been a 'collapse' in the demand for undervalued (male) labour (Nickell and Bell, 1995; see also, Balls, 1993; Gregg, 1993), whilst others also note a shortening of job tenure for such labour (Burgess and Rees, 1996).

Second and relatedly, there was a fear that any employment increases

would fuel inflation unless the demand for labour was met by an increasing supply of labour seeking employment:

The number of people who are competing for jobs and the intensity of their job search influences labour costs. Weak labour supply leads to inflation rather than more jobs when output grows. The government has enhanced incentives to work, provided information and active help for unemployed people, discouraged unfair discrimination in the labour market, and removed obstacles to labour mobility. (Department of Trade and Industry *et al.*, 1994, p. 52).

Third, and perhaps most importantly, the relative wages of undervalued labour are falling. This has led to the greatest wage inequality in Britain since the 1880s (Balls, 1993, p. 3; Low Pay Unit, 1995, p. 9; Osborne and Nichol, 1996, p. 480). These changes in wage differentials were acknowledged even within government. Peter Lilley when secretary of state for social security observed:

This widening of earning differentials between skilled and unskilled does not just affect unemployment. It lies behind, or is intertwined with, many of our social problems. It may play a major part in the break-up of families, the growth of lone parenthood, and a growing welfare dependency. It may even play a part in explaining delinquency and crime. (Lilley, 1994, p. 6)

The consequence of widening earning differentials for benefit-dependent people after nearly two decades of free market policies is that:

entry positions available to those currently not in employment have become increasingly unstable and low paid... New engagements ... increasingly offer far lower wages relative to continuing jobs. Indeed, real earnings in jobs taken by those out of work have barely risen at all since 1980. (Gregg and Wadsworth, 1995a, pp. 73–4)

Indeed, Gregg and Wadsworth suggest that the majority of people on benefits may be discouraged from seeking employment because of a perceived 'poverty trap' as: 'Less than one-in-five entry jobs paid above median weekly earnings, (£224 per week) while over half paid below half median, (£112), and a surprising third paid below a quarter of median wages' (Gregg and Wadsworth, 1995b, p. 211). The aim of in-work benefits was to re-establish the entry level of low wage labour by offering 'wage subsidies' to individuals, encouraging them to take low paid employment. In the words of one civil servant we interviewed, the idea of in-work benefits was: 'to create a clear blue water... between what you could get in terms of benefits, and what you would get in work, in terms of benefits, income and all the rest'. In-work benefits stand like a buffer between the expressed needs of the free market in wage labour, and the rough and ready notions we have of politically acceptable minimum

incomes on benefit and in work. Concern with such issues is not new and is, in fact, rooted in the 'less eligibility' of the Benthamite utilitarianism which still pervades the social security system. Beveridge (Beveridge, 1944, pp. 92–3; see also Squires, 1990, pp. 146–58), for example, was so concerned that he had already indicated in his plan that a new benefit – eventually to be the Family Allowance – was required to maintain the differential. We, however, are more interested in explaining why, in the late twentieth century, governments have deemed it necessary to either subsidise individuals or employers in the labour market in order to reduce economic inactivity. These approaches to social security are a fundamental shift in post-Second World War social security policy. As one civil servant informed us: 'Beveridge would have been horrified of anything other than Family Allowance in work.'

The important point to note is that in-work benefits were seen, certainly by the parliamentary neo-liberal right, as the most suitable response to the regulatory dilemmas inherent in the workings of the free market because these benefits were designed in a way which it was hoped would aid Britain's neo-liberal accumulation strategy. So, for instance, while in-work benefits were an acknowledgement of, and in fact institutionalised, low (re-)entry wages, there was greater concern with differentials between 'skill' levels: the argument being that if differentials were too low Britain's competitiveness would be compromised:

reward for skill differentials are lower than in France and Germany. This may explain why Britain has fewer people qualified at supervisor, foreman and technician levels which... is precisely where demand is likely to grow during the 1990s... Thus pay differentials are still not sending out clear messages about incentives to train. This is affecting both the willingness of individuals to learn new skills and employers' willingness to provide training opportunities. (Department of Employment *et al.*, 1992, p. 38)

What we have defined as market workfare was seen as an important part of the strategy in managing these regulatory dilemmas. In other words, market workfare was a mechanism to help manage the inherent contradictions in an increasingly deregulated and liberalised market. How though, can market workfare be seen as managing the regulatory dilemmas outlined above?

In the first instance, it was felt that more low paid employment could be created, particularly through the ETU. In the words of one civil servant:

- R Well, I mean I have been persuaded it [ETU] won't work unless it has an effect on wages. It depends on how much of an effect on wages.
 CG: So... a... degree of effect then, would be acceptable?

- R: The argument my economist colleagues use is: since there is no shortage at the bottom end of the labour market, it is entirely a demand thing. And the only way you will increase demand is by reducing the cost of labour to the employer, and *so unless it does drive wages down a bit, nothing will happen.* (our emphasis; respondent was a senior civil servant)

One of the aims of the ETU, therefore, was to reduce 'market' wage levels in a hope more employment would be created in that undervalued section of the labour market in which demand for labour has collapsed. Hence, whilst free-marketeters argued that individuals should be paid a wage which reflects their productive value, and should not be paid more than this in policies such as a minimum wage (Department of Trade and Industry *et al.*, 1995, p. 110), it is clear that it was *acceptable* to push 'market' wages *below* the level reflecting the productive value of the individual.

Second, and relatedly, 'market workfare' had a role to play in avoiding the inflationary pressures of increasing employment, for it was believed that in-work benefits would increase the supply of labour. One civil servant, for example, told us that:

What you are doing if you have in-work benefits is you are essentially lowering the wage at which it becomes financially sensible to work. So you are creating a situation where more people want to work at any one wage level because the work is actually worth more to them.

Third, and perhaps most controversially, market workfare was seen as a mechanism for buttressing Britain's global competitiveness strategy in higher value-added industrial sectors. In-work benefits, as was highlighted by several civil servants, were the parliamentary neo-liberal right's 'free market' preference to a national minimum wage (NMW). Essentially, in-work benefits and a NMW attempt to offer benefit-dependent people an incentive to go to work by offering most people a differential to out-of-work benefits. However, it was feared that a minimum wage would create increasing wage costs as wage differentials were re-positioned:

A minimum wage would... trigger spiralling wage demands as higher paid workers struggled to restore their pay differentials. It would, therefore, price many individuals out of a job, regardless of their own wishes or those of their employers. (Department of Employment *et al.*, 1992, p. 39)

And using an example from catering (interestingly one of the most notoriously low-paid sectors in Britain) David Willetts suggested in parliament that:

The minimum wage would have... effects. One is that the unskilled worker in the kitchen would receive the same pay (*as the skilled cook*) and the skilled cook would want the differential reinstated... The restoration of differentials would lead to an old-fashioned increase in wage cost that would drive up unemployment. That is why a minimum wage would cost 800,000 jobs at £4 an hour and more than 1 million jobs at £4.26 an hour. (House of Commons Debate, 19 February 1997, col. 952)

In contrast, in-work benefits were supported, for it was felt they would not interfere with differentials, and as a consequence would not discourage individuals from training and education, thereby reducing Britain's competitiveness. Hence, market workfare, and in-work benefits in particular, were seen as an important mechanism in buttressing Britain's competitiveness in the global economy. The important point though, was that the site of competition was not within the undervalued sector of the labour market, but at the level of differentials further up the pay scale. As Ian McCartney (the Labour Party's chief spokesperson on employment) highlighted to us, low wages which are concentrated in the service sector have:

nothing to do with international competitiveness because, in truth, somebody who has got a cleaning contract in a school, say, in Wigan, does not bus in from Sri Lanka to Manchester airport everyday third world people on 20 cents an hour. They use local labour. This international competitive argument in relation to indigenous service industries is an absolute nonsense. (Interview)

In contrast, Britain has to compete with European countries to attract inward investment and to sell mainly high value-added manufactured goods. Wage levels are seen as an important element of this: 'UK hourly labour costs for production workers in manufacturing have been below those in other G7 countries for many years' (Department of Trade and Industry *et al.*, 1995, p. 104; 1996, p. 55). The fear was that a minimum wage would increase these costs, making Britain less competitive through the demand to maintain differentials if a minimum wage was introduced. This was not seen as an issue with in-work benefits because they did not directly increase the wages of the lowest paid employees.

'NEW LABOUR': 'WELFARE-TO-WORK' – A 'NEW DEAL' FOR THE UNEMPLOYED AND LONE MOTHERS

The emphasis of the parliamentary neo-liberal right in managing some of the regulatory dilemmas of neo-liberal capital accumulation was upon the market creating employment through deliberately engineering downward pressure on wages, on the one hand, and increasingly stringent qualifying criteria on the other hand. What has been the approach of the New Labour administration?

The initiatives of New Labour are highlighted by marked continuities, 'symbolic differences' and one disjunction: they intend to introduce a minimum wage. So, for example, New Labour have not changed any of the market workfare measures outlined above. In fact, some of the measures have been extended. On the in-work benefit side, the FC childcare disregard was increased from £60 to £100 (and the disregarded age was increased to 12 from 11) in the July 1997 Budget, in a hope that it would 'make child care more affordable' (Gordon Brown, chancellor of the exchequer, House of Commons Debate, 2 July 1997, col. 309). There is also a commitment to FC. The Labour Party document, *A New Economic Future for Britain*, for example, notes how: 'We propose to place the responsibility for the initial identification of potential Family Credit recipient on the Inland Revenue' (Labour Party, 1995, p. 40).

On the out-of-work benefit side, the direction is increasingly towards disciplining benefit claimants into employment. The New Labour welfare-to-work strategy, for example, is presented as offering 'a first step onto the employment ladder' (chancellor of the exchequer, House of Commons Debate, 2 July 1997, col. 308) for 18–24 year olds. In other words, social security payments (now reinterpreted as 'welfare') will act as a 'hand up not a hand out' (Labour Party, 1996, p. 2; Harman, 1997). Claimants, aged 18–24, who have been unemployed for six months or more are to be given four options: to take a job with an employer who will receive a subsidy of £60 a week (£75 per week for those aged 25 and over who have been unemployed for more than two years) per person taken on; work with an environmental task force or a voluntary agency, both of which attract a placement fee for the organisation of £3,200 per six months; finally, 'there will be a full-time education option' (David Blunkett, secretary of state for education and employment, House of Commons Debate, 3 July 1997, col. 440).

In the first option the young person will receive a 'market wage', whilst in the environmental task force, and voluntary work options conscripts will receive benefits plus £15 (Finn, 1997, p. 12). In the education option they will receive benefits only. What the welfare-to-work strategy does not allow for is a fifth option, 'to stay at home on full benefit' (chancellor of the exchequer, House of Commons Debate, 2 July 1997, col. 308; Blair, 1997, p. 7). A refusal to take up the offer of a placement under the welfare-to-work scheme will result in benefit suspension or reductions in benefit (secretary of state for education and employment, House of Commons Debate, 3 July 1997, cols. 442–443; Finn, 1997, p. 13). While the disciplinary nature of such legislation is not new (Ginsberg, 1979; Novak, 1988; Squires, 1990) and merely builds upon the JSA, there is a

feeling of unease among social policy analysts at the zeal with which New Labour have embraced disciplinary measures (see Lister, 1997). Indeed, the benefit penalties of the welfare-to-work strategy are harsher than many in the parliamentary Labour Party had expected (*The Times*, 4 July 1997).

The second important pillar in new Labour's welfare-to-work strategy concerns lone mothers. Described as an 'historic new deal' (Department of Social Security press release 97/125), the 'New Deal for Lone Parents will invite lone parents with school age children into the Job Centre for help and advice on jobs, training and childcare' (Department of Social Security press release 97/099; 97/105). Despite its 'new' label the package for lone parents is suspiciously similar to the PP scheme (discussed above) which the previous administration was piloting. Although the New Labour government have claimed that there will be no compulsion for lone mothers to attend interviews with advisers (Department of Social Security press release 97/105), the pressure on them to leave benefit remains the same as nothing has changed with regard to the social and economic stigmatisation of lone mothers. Moreover, it has been observed that Frank Field (then minister for welfare reform) has argued that 'every single mother with children over four (should) be expected to look for work or undertake training' (cited in Finn, 1997, p. 13).

The rationale of New Labour's welfare-to-work strategy for those officially defined as unemployed is similar to that of the previous administration: that the wage costs of employers must be reduced to make unemployed people more attractive as potential employees. In giving evidence to the Employment Select Committee on the workings of wage subsidies, Professor Dennis Snower of Birkbeck College notes that: 'It is clear that employment would rise because labour costs fall and when labour costs fall, employment will rise' (Employment Committee, 1994, question 186). In this sense, it could be argued that market workfare lives on, for the employment of those currently unemployed will, it is hoped, come from private employers attracted to the reduced wage costs which come with taking on unemployed people. The responsibility on the state to create employment will not be great. Moreover, the emphasis continues to be on creating employment without igniting inflation. As Professor Richard Layard of the London School of Economics explained to the Employment Select Committee: 'faced with long term unemployed people who are more attractive to them and this means that it is a greater supply of labour, there is disflationary pressure in the economy' (Employment Committee, 1994, question 170).

In fact, the ideas of the New Labour government have been influenced

by the work of Richard Layard (Finn, 1997, p. 11), who shortly after the election of the new Labour government was 'recruited' as 'a key figure in developing the Government's welfare to work policy' (*The Guardian*, 26 June 1997). Layard is a firm believer in time-limited social security benefits (Layard and Philpott, 1991, p. 6; Layard and Nickell, 1992, p. 36), as well as having tight conditional clauses controlling access to benefits (Jackman *et al.*, 1984a, b) and state-guaranteed employment for the unemployed (Layard, 1985, pp. 11–13; Employment Committee, 1994, question 168). Indeed, he and the 'underclass right' believe in the same causes of long-term unemployment. So, for example, in a written submission to the Employment Select Committee's review of workfare, Layard argues: 'The effect of unemployment benefit availability upon unemployment is not surprising. Unemployment benefits are a subsidy to idleness, and it should not be surprising if they lead to an increase in idleness' (Employment Committee, 1994, p. 21).

His solution to long-term unemployment is an employment guarantee, with employment being created by incentivising (through subsidies) employers to take on long-term unemployed people. Hence the previously long-term unemployed will be 'paid a normal wage... provided by a normal employer' (Employment Committee, 1994, question 170). We are not suggesting that Layard has an affinity with the neo-liberal right. His seemingly concordant comments with the neo-liberal right are linked to that fact that he is an economist. The economic paradigm and its attendant assumptions within which he works are similar to those of neo-classical economists. Therefore, one would expect his theorising about the causes of employment to be similar to that of people associated with other political persuasions. Furthermore, the fact that policies are attempting to address the same regulatory dilemmas within the same economic paradigm leads to a congruence of ideas. Hence, subsidies as an incentive to employers to employ the long-term unemployed have also been advocated by the recent Council of Churches report into unemployment (Council of Churches for Britain and Ireland, 1997, p. 129).

Whilst continuities with the previous neo-liberal government are important, there are some important differences too – though these are more at a symbolic level. The acknowledgement of childcare as 'an integral part of... economic policy' (chancellor of the exchequer, House of Commons Debate, 2 July 1997, col. 309) is something which has been campaigned for over many years by organisations such as the Daycare Trust. However, with an estimated extra cost of only £10 million for the increase in FC (Department of Social Security press release 97/099), and National Lottery money to pay for after-school clubs, the financial com-

mitment to the 'national childcare strategy' is not overwhelming. Moreover, the £200 million over the lifetime of this parliament allocated in the New Deal to help lone mothers into employment must be seen in the context of the abolition of One Parent Benefit, which according to one estimate, will save the Exchequer up to £400 million over the same period (*Financial Times*, 4 July 1997).

The second important difference is the commitment to guaranteeing work for all 18–24 year olds unemployed for six months or more. This is a break with the neo-liberal approach which focused upon the market as being able, given the right economic framework, to create full employment. The welfare-to-work strategy for the unemployed aims to subsidise employers rather than individuals. In the context of the universality versus selectivity debate, this may prove more appealing to those in the Labour Party who are against means-testing, because of its alleged effects on the character of individuals (Field, 1995, p. 10).

However, an important disjuncture with the previous Conservative administration is Labour's commitment to introduce a NMW. We have seen how the Conservative Party rejected a NMW because it was argued that it would be detrimental to Britain's competitiveness. The new Labour administration face similar dilemmas in the global economic arena, but in deciding upon the introduction of a national minimum wage, they will be honouring their pledge to that wing of the labour movement which sees a NMW as a solution to poverty in work. This is not to deny that the new Labour administration are not concerned with Britain's global economic fortunes, but to acknowledge that, within the policy process, dilemmas emerge because of the contradictory pressures from different institutional sites. Moreover, it is possible that the introduction of a NMW will exacerbate those regulatory dilemmas – particularly high levels of economic inactivity⁷ – to be managed in the future. In this sense, it might be argued that the New Deal for the unemployed is merely an administrative tool to help offset some of the wage costs that will be incurred by employers through the imposition of a NMW.

CONCLUSION

The 1990s have been marked by high levels of economic inactivity, low wages and fears of the threat of inflation. This article has argued that these regulatory dilemmas were caused or exacerbated by the neo-liberal accumulation strategy adopted in Britain in the late 1980s by the parliamentary neo-liberal right, and which has, in the main, been accepted by the New Labour government. It was and is thought that the regulatory dilemmas could be managed through the social security system. Indeed,

we have shown that the development of market workfare was the response of the parliamentary neo-liberal right whilst a variant has been adopted by the New Labour government. However, both governments, were or are trying to address the same regulatory dilemmas: economic inactivity, inflation and low wage levels. The form of capital accumulation and its attendant regulatory dilemmas, therefore, explain why there is a remarkable similarity between the approaches of the current New Labour administration and the previous neo-liberal government. Regulatory dilemmas do not change with governments. They change when the form of capital accumulation changes.

NOTES

- 1 So, for example, in April 1987 it was claimed by Gordon Brown, then Labour's regional affairs spokesperson, that: 'Government ministers are secretly planning a massive US-style assault on Britain's unemployed' (*The Times*, 23 April 1987). The accusation was strenuously denied when Lord Young, the employment secretary, reportedly said that the government had 'no plans to introduce a workfare-type programme' (*Sunday Times*, 26 April 1987).
- 2 David Willetts is an important political figure in the study of in-work benefits because he is credited with responsibility for guiding Family Credit through the 1986 Social Security Act (personal communication).
- 3 The civil servants quoted in this article were all interviewed for a research project. They were interviewed according to the Chatham House Agreement and therefore cannot be identified by position or name. A total of six were interviewed at Department of Social Security and Department for Education and Employment headquarter offices, but to keep within the spirit of the Chatham House Agreement we have not identified their departments.
- 4 Full-time working has been defined since 1992 as 16 hours per week. Note that the average number of hours worked by part-timers has increased recently due to changing working patterns by women and is now in excess of that figure at 19.3 hours (Osborne and Nichol, 1996, p. 479).
- 5 This has been one of the more problematic aspects of FC, for in certain circumstances the marginal tax rate can be up to 97 per cent, leaving the recipient only three pence better-off for each pound earned.
- 6 We have used the term 'undervalued labour', for 'skill' is a socially constructed notion which reflects dominant power relations of capital and patriarchy (Peck, 1992). Hence occupations which often involve a high degree of skill, such as caring in nursing homes, are not recognised as being 'skilful' (Wilkinson, 1992).
- 7 It has been widely reported, for example, that in the run-up to the 1997 general election John Prescott argued that a NMW would increase unemployment (e.g., *The Guardian*, 14 April 1997).

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