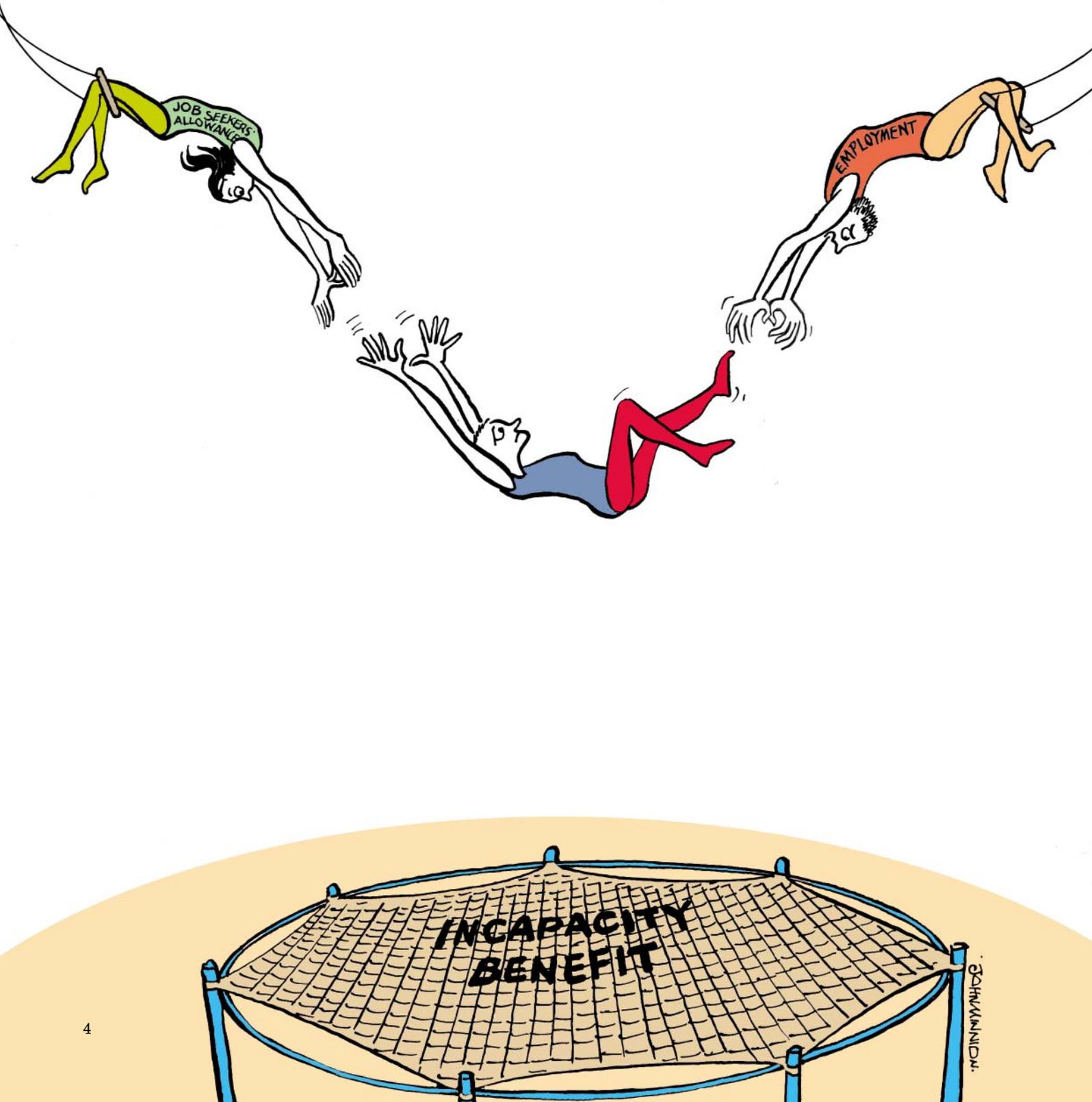


The Job Seeker's Allowance was introduced in late 1996 to encourage benefit claimants to look for work. New research by **Barbara Petrongolo** investigates whether it has succeeded in breaking the 'unemployment trap'.

The unemployment trap



The Job Seeker's Allowance (JSA) was introduced in the UK on 7 October 1996. It replaced the existing system of unemployment benefits and income support, and is currently the main welfare support to the unemployed. It was intended to break the 'unemployment trap' in which workers were discouraged from finding work because of the availability of benefits.

The new system placed stringent conditions on claimants – possibly forcing some to stop claiming without finding a new job first. Individuals who drop out of the welfare system may become more detached from the labour market and put less effort into searching for a new job. This may lower the employment rate in the future – exactly the opposite effect of the one intended.

The JSA has two distinct components:

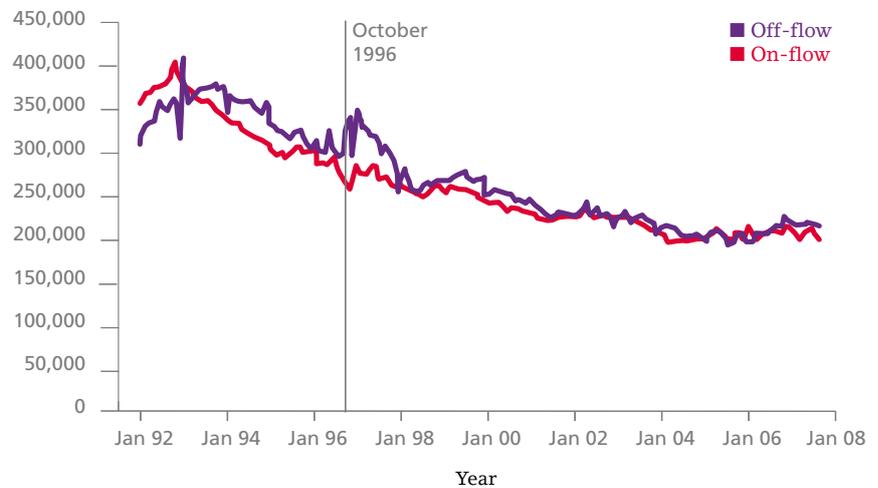
- The contributory component, which has limited duration, is not means-tested and is based on previous national insurance contributions. This component replaced unemployment benefit.
- The means-tested component. In principle, this is an open-ended measure that replaced income support.

The contributory component of the JSA is more stringent than the unemployment benefit that it replaced. It is only payable for half a year (rather than a full year), young people aged 16-25 receive less and there is no allowance for a dependent spouse. In contrast, the means-tested component of the JSA is payable at the same level as the former measure of income support. And as most support is provided through this component, the total effect of the changes was not large.

The most significant break with the previous system was the substantial

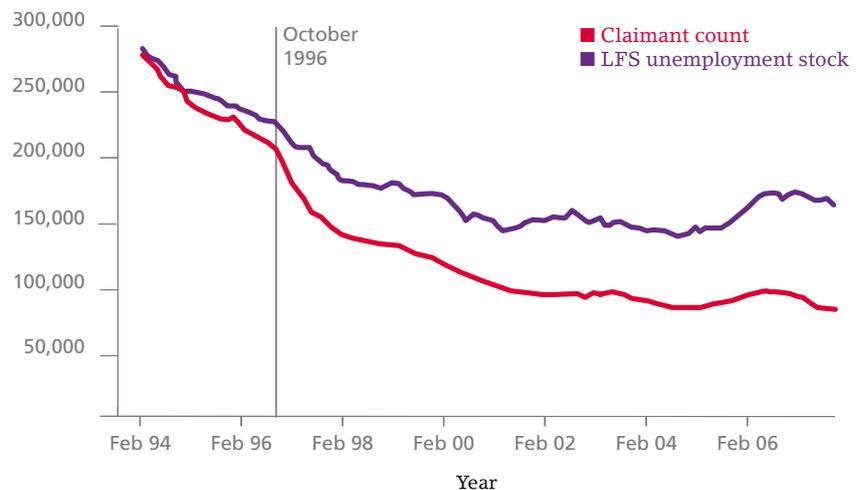
The Job Seeker's Allowance introduced conditions to ensure claimants were looking for work

Figure 1:
Flows into and out of the claimant count (seasonally adjusted)



Source: NOMIS.

Figure 2:
The claimant count and the Labour Force Survey stock of unemployed (seasonally adjusted)



Source: NOMIS and ONS.

increase in evidence that claimants had to provide to demonstrate that they were looking for work. Claimants now have to sign a Jobseeker's Agreement in which they agree to look for work actively and commit to a number of specific 'search steps'. Such steps might include how many employers they are going to contact every week or how many times they are going to contact a job centre.

Claimants are required to keep a detailed diary of each search step

undertaken, such as each phone call made to a potential employer. The search diary is then checked against the initial agreement at fortnightly interviews with the Employment Service – or more frequently if a claimant is suspected of fraud. Claimants may be 'directed' by the Employment Service staff to take specific steps.

If claimants are still unemployed after 13 weeks, they are required to broaden their search and may not turn down job



The Job Seeker's Allowance reduced the number of claimants – but it also reduced the number of claimants finding work

offers outside their main occupation (although this is difficult to enforce). A claimant who fails to meet these requirements is threatened with temporary sanctions or disqualification from the JSA entirely.

Some of the effects of the JSA can be seen by looking at flows of people into and out of registered unemployment, as Figure 1 shows. Soon after the introduction of the JSA, there was a large increase in the number of people stopping claiming the JSA, with no increase in the number of new claimants. This translated into a rapid decline in the unemployment rate, which was already falling in the months before the reform came into effect.

Official evaluations of the JSA carried out by the then Department of Social Security (now the Department for Work and Pensions) show that the JSA increased the number of people stopping claiming benefits. This was largely due to a 'weeding out' effect: those who were not serious about searching for a new job were forced off the register.

Their findings also show that the average claimant increased his or her efforts to find a new job. Of course, it is possible that as less serious claimants were weeded out, only claimants who were trying to find a job remained. So it could be that the remaining claimants were the ones who were always more motivated, rather than being motivated by the JSA directly.

Indeed, research by Alan Manning (2005) finds that taking account of the

behaviour of both claimants and non-claimants, their average search effort did not increase at all after the introduction of the JSA.

Further effects of the JSA can be evaluated by comparing two groups of job seekers: those who became unemployed shortly after the introduction of the JSA; and those who became unemployed six months earlier (and then adjusting for seasonal factors using information on later cohorts of claimants).

Although claimants affected by the JSA system came off benefits more quickly than claimants did under the old system, they were 4% less likely to be in work a year after they lost their job. This meant that they were earning an average of £600 less a year.

What's more, these effects were stronger for young people (those aged up to the age of 24), who experienced more severe earnings losses than older workers after the introduction of the JSA.

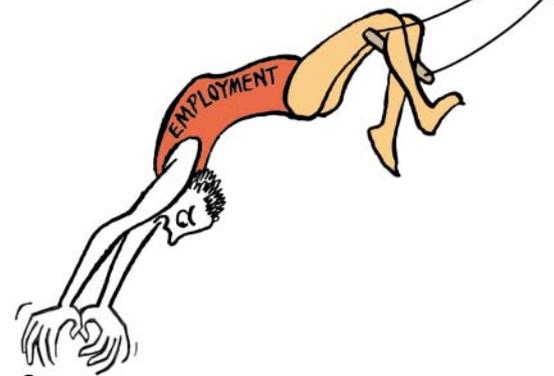
As the JSA seems to have moved claimants off benefits but not into new jobs, it increased the number of non-employed people who were not claiming benefits. Figure 2 shows that the claimant count – while being very close to the Labour Force Survey (LFS) measure of unemployment until 1996 – fell more sharply than LFS unemployment after the introduction of the JSA in late 1996.

So what happened to these workers who were neither working nor claiming benefits? Many may have become part of the 'hidden unemployed' – but there are other possibilities.

A study by Stephen Machin and Olivier Marie (2008) shows that crime in the UK rose more in areas that were most affected by the tougher JSA benefit regime. Could this mean that people pushed out of the benefit system by the new, more stringent standards were turning to illicit methods of earning? Possibly – but other factors could be at work as well, so we must be careful in claiming this.

Another possibility is that people simply moved onto other benefits, notably incapacity benefits. Indeed, individuals covered by the JSA are 3% more likely to take up incapacity benefits – and thus be induced into longer-term dependency – than individuals not covered by the JSA.

This has important consequences for government spending on welfare. While



Some workers appear to have moved off the Job Seeker's Allowance and onto incapacity benefit

expenditure on unemployment benefits has been lower under the JSA, if we take account of the increase in incapacity benefits, it is not clear whether the total benefit expenditure was reduced. So it remains unclear whether the move from the unemployment benefit and income support system to the JSA was beneficial either in terms of reducing benefits or of helping more people into work.

This article summarises 'What are the Long-term Effects of UI? Evidence from the UK JSA Reform' by Barbara Petrongolo, CEP Discussion Paper No. 841 (<http://cep.lse.ac.uk/pubs/download/dp0841.pdf>).

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Further reading

Stephen Machin and Olivier Marie (2008), 'Crime and Benefit Sanctions', *Portuguese Economic Journal* (special issue on labour economics), earlier version available as CEP Discussion Paper No. 645 (<http://cep.lse.ac.uk/pubs/download/dp0645.pdf>).

Alan Manning (2005), 'You Can't Always Get What You Want: The Impact of the UK Job Seeker's Allowance', CEP Discussion Paper No. 697 (<http://cep.lse.ac.uk/pubs/download/dp0697.pdf>).