



## 'New Labour', welfare reform and the reserve army of labour

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**T**his paper locates 'new Labour's' welfare reform agenda in the workfarist shift of recent social policy. In this context it explores the aim of 'new labour's' welfare reform programme to reconstitute the reserve army of labour so that it is able to fulfil its role in managing economic stability. The emphasis is upon ensuring that labour is as cheap as possible for capital to employ through various direct and indirect wage subsidies and requiring more benefit dependent groups to compete for paid employment.

### Introduction

'New Labour's' 2001 Manifesto (Labour Party, 2001) has a whole chapter dedicated to 'A Modern Welfare State'. The chapter outlines the policies it introduced in its first term and pledges for the next term aimed at promoting 'work for those who can and security for those who can't' (*ibid.*, p. 24). For people of working age these policies include the various 'new deals', Working Families Tax Credit (WFTC) (the benefit paid to low paid and/or part time workers), the National Childcare Strategy (NCS) and the National Minimum Wage (NMW). These policies are more concerned with the project of 'promoting work' for those of working age. Little is said of how the working age able-bodied can expect security if they cannot work for whatever reason. The promotion of paid employment has come to dominant 'new Labour's' welfare reform programme because it is

held to be the 'best anti-poverty, anti-crime and pro-family policy yet' (*ibid.*).

This paper examines the centrality of paid work to 'new Labour's' welfare reform programme, arguing that the programme aims to re-regulate the reserve army of labour to increase its size and increase its closeness to labour markets by making it more 'employable'. In this context 'employable' actually means making labour cheaper to hire through the direct and indirect subsidy of wages. It is demonstrated how 'new Labour's' approach differs to that of the Conservatives under whom the reserve army effect arguably lost its importance as non-employed people (unemployed, lone mothers and sick and disabled people) became detached long term from labour markets.

### 'New Labour' and 'workfarism'

There is debate about the balance between continuity and change in the

labour market and income maintenance policies of the Conservatives and those of 'new Labour'. 'Supply-side fundamentalism' (Peck and Theodore, 2000, p. 729)—a focus upon the characteristics and behaviour of non-employed people in causing unemployment rather than the (lack of) demand for labour—provides an important source of continuity. The main source of discontinuity is argued to be the substantial resources that 'new Labour' have invested in their flagship policies, most notably the new deals and the support that the new deals give in helping non-employed people prepare for work (see Peck, 1999).

'New Labour's' welfare reform programme has recently been described as being part of a 'workfarist' shift in Britain (Peck, 1999, Peck and Theodore, 2000). The way the term 'workfare' is used in this sense differs from its traditional association with forcing claimants to work in return for their benefits. In contrast, 'workfarism' represents a re-orientation of social policy to make it more 'in tune' with neo-liberal growth, for example, the facilitation of flexible labour markets through social policy in the pursuit of a competitive edge in global markets. In this sense social policy has become central to economic restructuring aimed at supporting 'free' markets, rather than being concerned with protecting universal rights that were associated with Keynesianism.

The trends towards a 'workfarist' state were visible towards the end of the Conservative's eighteen year reign. In the 1990s, for example, Peck and Theodore (2000, p. 734) observe the emergence of what they call a 'new orthodoxy in labour-market policy' involving 'both incentives and pressures to work in the context of a *laissez-faire* approach to the demand side of the labour market'. Under 'new Labour' this orthodoxy has been consolidated through more

generous and wider-scoped work incentives ('tax credits' and the NMW) and benefit penalties that can now be invoked to punish those officially defined as 'unemployed' and also lone mothers and sick and disabled people who do not explore with the relevant government agencies the possibilities for securing paid employment. However, as Peck (1999, p. 347) notes in the case of unemployed people, 'the bitter pill of mandatory participation has been sugared under the New Deal by the twin emphases placed on quality programming and participant choice'.

Here we are not so much concerned with the detail of the welfare reforms in the shift to 'workfarism', but with the ways in which the reforms are aimed at reconstituting the reserve army so that it is able to fulfil its role in managing economic stability.

#### **'New Labour', the reserve army and welfare reform**

'New Labour' has made it clear that it aims to guide Britain away from the 'boom and bust' economy of the post-Second World War period towards stable economic growth. The most important means of ensuring stable growth 'new Labour' argues is through the control of inflation. An important means of controlling inflation is to ensure that an effective reserve army of labour exists. The 'new Labour'-favoured economist Professor (now Lord) Layard (1997a, p. 190) outlines the argument:

In any economy there has to be some short-term unemployment to ease mobility and restrain wage pressure by providing employers with a pool of workers able to fill vacancies. But long-term unemployment appears to be largely useless as it exerts very little

downward pressure on inflation. This is because employers are generally unenthusiastic about long-term unemployed people as potential fillers of vacancies. Whether this reaction is justified (by the demoralization and deskilling of the workers) or not justified is unimportant.

Although Layard does not use a Marxian discourse, he is essentially describing the role Marx assigned to the reserve army of labour some 150 years ago. According to Layard the reserve army has little deflationary effect if it is made up of long term unemployed people because employers see them as lacking as potential employees. Employers may not just have this view of those officially defined as 'unemployed'. Similar observations could be made of other groups who may be long term absent from labour markets, such as some lone mothers and sick and disabled people. Such a situation of long term unemployment and 'benefit dependency' developed under the Conservatives, particularly in the 1980s. This gave the impression that non-employed people were not so much a reserve army of labour, but more a population permanently excluded from paid work and labour markets (c.f. Bauman, 1987).

In Layard's line of thinking there are two pre-requisites for deflationary pressures upon wage levels. First, there must always be a reserve army of labour, no matter what form the accumulation regime takes. Second, the reserve army must have a close relationship to labour markets. Hence Layard's focus upon the benefits to capital of short term unemployment and the uselessness of long term unemployment. His arguments raise important questions about the relationship between 'welfare' policy and economic performance, for the former regulates the position of the reserve army in relation to the latter.

One of the most important roles of 'welfare' policy is to maintain and regulate the reserve army to ensure that it has a close relationship to labour markets so that it can fulfil its role in the management of economic stability.

There is much evidence to suggest that 'new Labour' is aware of such necessities. Ministers make much of the close relationship between 'welfare' and economic policy, and through closely aligning the two, it is believed that non-inflationary growth can be sustained, even with greater numbers of people in employment. As the Chancellor of the Exchequer has commented:

The more our welfare to work reforms allow the long-term unemployed to re-enter the active labour market, the more it will possible to reduce unemployment without increasing inflationary pressures. (Brown, 1999, p. 12)

This is because the:

welfare-to-work programme makes the labour market flexible... It creates greater flexibility by breaking down the barriers that trap people in long-term unemployment. It increases the supply of labour in the economy, its quality and its employability. (Peter Mandelson, then Secretary of State for Trade and Industry, in Hansard, 1998, col. 169)

According to Mandelson 'new Labour's' welfare reform package helps create and maintain the flexibilities that 'new labour's' particular brand of neo-liberalism requires to flourish (see Grover and Stewart, 2002, chapter 3). In this context how does 'new Labour's' welfare reform programme help meet the two pre-requisites Layard outlines to maintain downward wage pressures

through the effects of the reserve army? First, it is aimed at swelling the numbers within the reserve army. In addition to those officially defined as 'unemployed', 'new Labour' have attempted to draw into the reserve army groups that in the past have not been expected to be actively engaged with labour markets, most notably lone mothers, the partners of unemployed people and, increasingly, sick and disabled people. Each of these groups are subject to 'new deals' that operate in addition to those for people officially defined as 'unemployed'.

This is important because the greater the size of the reserve army the greater potential for controlling inflation at entry level wages. Competition is held to be the key to maintaining downward pressure on wages. The larger the reserve army is the greater potential there is for competition.

In attempting to draw more groups into the reserve army 'new Labour' are taking policy in a direction that the Conservatives were, on the whole, unwilling to go. Pressure to take paid work was until recently really only placed upon those officially defined as unemployed. So, for example, due to ideological prescriptions concerning the role of women as mothers the Conservatives placed little pressure upon lone mothers to take paid work. 'New Labour' has gone to the other extreme. Lone mothers, for example, are now defined as unemployed labour rather than important actors in social reproduction (Borrie, 1994).

However, the effectiveness of the reserve army is not just linked to its size. To be competitive individuals must also have characteristics that capital desires. This links to a second issue of the closeness of the relationship between the reserve army and labour markets. The way in which 'new Labour' aims to increase the closeness of the relation-

ship between the reserve army is through what is called 'employability'. If the reserve army is 'employable' its deflationary effect will be heightened:

if people are not employable they are not going to exert this disflationary force which is the thing which leads to the possibility of expansion. But, if we can increase the number of people who are employable to start with, we will have more people out there facing employers looking for work who are employable and that will lead to a disflationary force. Employers will not feel compelled to bid up wages in order to deal with shortages and that will enable the authorities to let demand expand safely. (Layard, in Education and Employment Committee, 1997, question 266)

'Employability' is 'the new buzzword in labour-market policy circles' (Peck and Theodore, 2000, p. 729). But what does it actually mean? Usually the focus is upon the character and characteristics of non-employed people, for example their attitudes to paid employment or the 'skills' and experience that they may or may not have. However, this deflects attention from the fact that 'employability' is actually about the wage costs of capital. As Margaret Thatcher pointed out to unemployed people in the 1980s the bottom line is that it is the cost of their labour that makes potential workers 'employable'.

It is no coincidence that what we see in 'new Labour's' welfare reform package is a concerted effort to increase the closeness of the relationship between the reserve army and labour markets by making it as cheap as possible to employ. This has involved the direct subsidisation of the wage costs of capital, for example, through the pay-

ment of allowances for capitalists employing those on the new deal programmes for unemployed people. Such subsidies mean:

employers are now being faced with a much increased supply of workers that they find attractive. Previously, they [employers] had a certain flow of people from whom they could try and fill their empty slots and they disregarded the long term unemployed... Now they 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... (Layard in evidence to the Employment Committee, 1994, question 170)

Layard is confirming that 'employability' is not so much about the characteristics of non-employed people but is about how much they cost to employ. At entry level non-employed people have to be as cheap as possible to be attractive to capital. The internal contradiction of the capitalist system are clear here, for while capital may want cheap labour, it is not necessarily in the interests of the reserve army (given out-of-work benefits) to take such low paid employment. Therefore, to ensure the policy of directly subsidising wage costs has the desired effect upon wages costs participation by unemployed people in the new deal schemes has to be compulsory on the threat of benefit withdrawal.

A second way 'new Labour' is attempting to make the reserve army cheaper to employ is through the payment of in-work benefits (now re-branded as 'tax credits') to those in low paid employment. The Conservatives developed in-work benefits from the late 1980s. Their extension in generosity and scope has been the main income

maintenance policy development of 'new Labour'. The purpose of 'new Labour's' 'tax credits' is to reduce the gross wage that individuals will work for by increasing their net wage through in-work relief. One idea behind this is to once again increase the supply of labour. Grover and Stewart (1999, p. 87) quote a senior civil servant to explain the argument:

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.

Such moves are consistent with the project to increase competition for employment. However, the development of subsidies for low paid employment puts further downward pressure upon wages by providing a state-sponsored top-up for low paying employers. In their second term 'new Labour' have pledged that 'tax credits', currently only available to those people with dependent children, will be extended to all workers aged 25 or over. For the first time on a national scale single people and childless couples could be entitled to a supplement if they receive low wages or work part time. We are at an unprecedented point in the history of income maintenance policy when the majority of people in paid employment of more than 16 hours a week will be entitled to claim a subsidy, providing their wage is low enough.

There can be little doubt that this is aimed at maintaining downward pressure on wages. The Conservatives tested a similar scheme, whereby every worker in pilot areas could have received an in-work top-up if their wages

were low enough. In discussions about this policy with senior civil servants Grover and Stewart (1999, pp. 86-87) were told:

Civil servant: Well, I mean I have been persuaded it 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?

Civil servant: 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* (emphasis added).

While the NMW, if rigorously enforced, should provide a floor below which wages should not fall, it does not detract from the fact that in the future there will be little pressure upon capital to increase wages at the lower end of earnings spectrum beyond what they are told to do so by the state. In fact, the NMW is crucial to the programme, for without it the cost to the Treasury of 'tax credits' would be prohibitive. The fear is that capital will lower its wages in the knowledge that the state would meet the difference between wages and the political defined minima (Layard, 1997b, p. 68).

### Conclusion

In this paper we have seen 'new Labour's' attempt to re-regulate the reserve army so that it maintains its role in providing stability in economic growth. It has been argued that this is linked to wider trends in what have been

described as 'workfarist shifts'—an attempt to change the nature of 'welfare' provision to make it more congruent with neo-liberal development.

Compared to the Conservative's approach this has involved both continuity and change. Continuity is visible in the individualising of unemployment through supply-side foci upon the character and characteristics of the non-employed. However, there are important departures in the regulation of the reserve army. Overall, 'new Labour' has been far more active in promoting the effectiveness of the reserve army. The Conservatives, particularly in the 1980s, were willing to let the reserve army to be governed by what would now be termed a 'passive' benefit regime. This changed somewhat in the 1990s with the development of the Jobseekers' Allowance and has been extended by 'new Labour' who have increased the authoritarian nature of the benefit regime through the new deals. The new deals have also increased the size of the reserve army by drawing in groups, most notably lone mothers but also sick and disabled, that previously faced little pressure to find work.

'New Labour' has also been willing to subsidise the wages costs of capital to a far greater extent than the Conservatives were. These subsidies are aimed at making the reserve army more 'employable'—more attractive to capital—by reducing wage cost. The Conservatives would not have entertained the level of subsidies 'new Labour' have overseen (c.f. Peck and Theodore, 2000, p. 734): a high proportion of the £3.2 billion for the various new deals and an estimated £4.2 billion a year through WFTC, a figure set to increase substantially with the development of further 'tax credits' in 'new Labour's' current term in office.

The reserve army is larger, more disciplined and more highly subsidised

than before. These developments are in the name of securing the right conditions for neo-liberal growth. In contrast to the state withdrawing to free markets from institutional constraints, neo-liberalism, it would seem, requires increasing levels of discipline and expenditure to ensure that capital is not starved of its most important asset; its labour.

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