REFORMING INCAPACITY BENEFITS IN THE UK: THE EVALUATION OF THE PATHWAYS TO WORK PROGRAMME

Antoine Bozio

Institute for Fiscal Studies et University College London

Since October 2003 the Department for Work and Pensions has piloted ‘Pathways to Work’ reforms in parts of the UK. This programme both provides greater support (financial and non-financial) and imposes greater obligations to encourage new claimants of incapacity benefits to move into paid work. We begin by presenting estimates of the impact of the programme, using a difference-in-differences methodology, on benefit outflows, employment and whether individuals report that their health affects their everyday activities. We then detail a comprehensive cost-benefit analysis based on simulating the effect of the policy on incapacity benefit recipients and micro-simulating the tax and benefit system. Finally we explore the possibility of using two-step propensity score matching to estimate the impact of individual components of the programme.

The programme is found to deliver a significant increase in the outflow rate from incapacity benefit, a positive, albeit imprecisely estimated, effect on employment, and some evidence of a reduction in the proportion reporting that their health affected their everyday activities. The cost-benefit analysis shows a positive financial gain for both the individuals and the Exchequer, even under conservative assumptions. However, our understanding of the policy is far from complete. The timings of the benefit and employment effects are different and a recent evaluation of one expansion of the programme failed to find a significant employment impact. Moreover the design of the pilots has meant that we have not been able to identify separately the causal impacts of the different components of the programme, making it hard to draw firm conclusion as to which part of the package was the most effective.

3 Ce travail a été réalisé en collaboration avec Stuart Adam et Carl Emmerson