FEBRUARY 1996

Attlee Lecture

The High Politics of Welfare

The importance of welfare in the political debate has varied dramatically over the last two centuries. The early Victorian political settlement neutralised what many of us would have regarded as normal day to day political activity. The repeal of the Corn Laws and the passing of the Bank Charter Act took most commercial and monetary questions out of party debate. The implementation of the new Poor Law similarly settled social policy. The impact of these measures on the political process can be misread. While the big issues were not subject to party political dispute and division, they were not entirely taken out of politics. The very basis of the political settlement was that the commanding heights of the political economy should not be questioned, let alone overturned. That was the agreement the various factions and parties enforced on the political debate.

Hence the radicalism of Joe Chamberlain. His Unauthorised Programme doubly holed this status quo below its waterline. The Peelite view that opposition should not put forward a programme until they had been "called in" was directly confronted. One of the great fears of the political elite, that in the age of an extending franchise politicians would start bidding for the popular vote, was refashioned by Chamberlain into a radical virtue. And following hard on the heels of this challenge came another Chamberlain broadside. Fiscal issues ceased to be a matter of raising the necessary revenue with the minimum disturbance to private interests. Redistribution entered into the political fray. Welfare was again set on course for high politics.

This was a challenge which Gladstone appeared only too anxious to counter. He excluded Chamberlain from the Government's inner circle, he rejected Chamberlain's Unofficial Programme, and with it a new wave of radicalism. And his drive to a new constitutional settlement with the Irish played a pivotal part in the breakup of the old Liberal Party and its exclusion from power for almost twenty years. A new radical settlement had to wait for the Liberal landslide of

1906 and the use to which Lloyd George and Churchill put this overwhelming parliamentary majority. The high politics of that time was seen as a search by New Liberalism to forge a sustaining coalition of voters.

Welfare is set once again to become the issue of high politics. A new political settlement is falling into place over the political landscape. The collapse of the Berlin Wall, and the cross-party agreement on the priority given to controlling inflation, has largely removed foreign affairs and the running of the economy from the day to day battle of party politics. Welfare is sucked into the centre of this party political vacuum. Welfare moves into the centre of politics for a number of other reasons too.

It would command that position on matters of finance alone. Throughout the post war period the size of the welfare budget has not merely increased but, at a time when the overall size of the government budget has itself grown, welfare has risen both in real terms and as a percentage of GDP. To develop Sir Geoffery Holland's graphic phrase, welfare now holds such a dominant position in the government finances that public expenditure questions are for other departments matters of scavaging the scraps from welfare's feast.

Moreover, the cost of this feast is out of control. The Government has been committed to a programme of reining back the rate of increase in welfare expenditure. Despite strengthening the excluding powers of the gatekeepers guarding the entrance to welfare's domain, and the sending in of official raiding parties to expel many of those already in residence, the welfare army continues to expand. And so too do the costs.

In the last four annual public expenditure rounds the welfare budget's projected total has been increased each year, only for this projected increase to be overrun by at least £1,000m, for that projected total to be increased again, and to be over run by at least £1,000m again, and so on. Even if a future Labour Government fires successfully on all its other policy cylinders this uncontrollable welfare budget would immediately prevent the Government from ordering its priorities between, say, education, transport, overseas aid, health,

and so on. The lion share of any increase in expenditure allowed from a growing economy would be forfeited to social security without discussion. But, given welfare's insatiable appetite, the process would not stop there. Merely to project the current growth of welfare as part of Government expenditure is to recognise that the spectre of it derailing the Government's overall strategy is a distinct possibility. Controlling welfare expenditure must become the cornerstone of Labour's domestic policy.

But welfare becomes high politics for another, equally important reason. Let us ignore for a moment the question of who picks up the tab. The image of welfare was that this expenditure was beneficial to the recipient. It is this view which must now be brought into the frame. Far from having a clear beneficial impact, the fastest growing part of the welfare budget is insidiously undermining the moral fabric of our society.

Expenditure on means-tested welfare is growing like topsy. National insurance benefit expenditure has risen by 30 per cent since 1979. Means-tested benefit costs have soared by 300 per cent. It is this particular expenditure which is playing such a part in destabilising the overall budget. Much of each pound expenditure on means-tests generates the next pound of welfare expenditure.

The reason for this is disarmingly simple. Yet its essential simplicity has escaped this Government's understanding; a fact which is itself doubly surprising. Here is a government with a not inconsiderable amount of intellectual ability, despite much evidence to the contrary. The talents, for example, of the Secretary of State for Social Security, are of the first order. And yet the present administration seems to have so moved from its traditional moorings that it now fails to appreciate how means-tested welfare impacts on human character. Having an accurate view of human nature used to be the starting point for all Tory policies, and a clear dividing line with Labour who allegedly held a distorted, too idealistic view of the human condition.

Any rational society would arrange its affairs so that those values which it believes central to the good life are not merely protected, but actively

promoted. Means-tested welfare achieves precisely the opposite. Means-test set an operational framework within which the cardinal values of work, saving and honesty attract extreme financial penalties. Men and women are more rational economic animals than even Mrs T cared to consider. Self-interest is the paramount force driving each of us. This self-interest operates within a framework of long-set traditions and the immediate pressures of current laws, entitlements and penalties. Means-test set self-interest against society's overall welfare. Means-tested welfare penalises work, or working harder, makes the provision of additional income from sources like company or private pensions a foolhardy venture, particularly if those pensions are of modest amounts, disenfranchises from benefit those who have saved and denies help to many who answer income and savings questions honestly. Simply reining back the hold means-tests have is not the only subject matter to welfare's reconstruction, although it is the most immediate. Self-interest has to be given the opportunity to promote the common good, and how that objective can be achieved is an issue to which I shall return shortly.

How can welfare be reconstructed in a way which achieves a disengagement from means-tests? The answer to this question bears directly on welfare's financial crisis.

In **Making Welfare Work** I have proposed three new initiatives to achieve this objective. The first was to universalise funded pension provision which would then run alongside the state's retirement pension. Stakeholding here will stem from the ownership of the savings in the funded scheme. The second reform centres on establishing a new national insurance system where the stakeholders are in control. It is crucial that these reforms are set in place even though they will not immediately impact on welfare's budget. The third reform, turning Income Support from a passive into a pro-active agency, will have the most immediate impact on welfare bills while simultaneously offering real possibilities for claimants to free themselves legitimately from dependency.

This threefold welfare reconstruction programme must be seen as impacting at different times and having fundamentally different effects on welfare's budget.

Pension reform is crucial. More than any other reform it offers the chance to usher in the new stakeholder welfare society which I first advocated in **Making Welfare Work**. But it does simply nothing to ease the immediate financial crisis. Pension reform is about creating the conditions in which those voters who currently make inadequate savings increase their amount of savings from current income so that retirement income levels become adequate. Full implementation of the reform outlined in **Making Welfare Work**, will not affect by a single penny the apparently inexorable rise in the cost of today's welfare. Indeed, if the universalism of these proposals is accepted, helping the poorest make their pension contributions - and this is the crucial distinguishing mark from anything that will be offered by the Tories - the bill will actually be increased.

The proposal for universal funded pensions is about facing the cruel truth that, in an age of growing tax cut demands, **more** not **less** must be spent on welfare. And do not be beguiled by the Social Security Secretary's rhetoric. That is his aim also. Retirement incomes are the most obvious area where this is true and the easiest to confront. It takes only a moment's thought to see that if individuals work for fewer years, but live for more decades in retirement, an adequate income for these decades can only be achieved if more of today's earnings are set aside for later consumption. But I do not believe that this transfer will be agreed unless the welfare rules are totally changed. Individual savers will want individual ownership of their assets. And who can blame them? By putting this reform into place welfare expenditure increases but state welfare in time will decline. But while the total welfare expenditure would increase, the increase will not go through the Exchequer. Nor will it be seen as part of the Government's accounts. The increase will all safely be in individual hands and individual ownership.

Even the proposals for establishing a Stakeholder National Insurance Scheme - to run in the first instance a new system of unemployment insurance, as well as a care pension - will cost some additional funding. The ownership of this scheme will need to pass from the Government to the contributors. The reason for this is quite simple. We only have to look at what has happened to national insurance unemployment benefit rights to understand why this change is necessary. First,

the earnings related supplements were abolished. Then the Government tightened up the qualifications for benefit. Finally a twelve month right to benefit will be slashed in half by the Government as part of its Jobseeker Allowance reform. There will be savings to taxpayers as the transition from means-tested dependency for the household's of the unemployed takes effect, and the whole strategy of community care funding is fundamentally changed. These savings will be dramatic in more than one sense. Savings will be dramatic because the cost of means-tested welfare will fall. The change to the Stakeholder's National Insurance Scheme will have equally dramatic consequences as the impact of welfare on motivation and character will be so clearly seen that only the political dinosaurs hankering after the old order will fail to recognise the obvious. The proposals for a new stakeholder's national insurance scheme, which was first outlined in **Making Welfare Work** and will be detailed and costed in **How To Pay For The Future** advocates restructuring unemployment benefit to accommodate modern conditions. Let me give you a few more details of this reform as it illustrates how a Stakeholder's welfare has to be built in order to complement today's labour market.

In 1979 those re-entering the labour market were most likely to come from households where no-one was in work. Today the position is totally the reverse. Why? There are two reasons for this phenomenal change which give the clearest illustration imaginable of how current welfare inter-relates with the labour market - this time creating horrendous consequences for both individuals and families as well as for taxpayers.

Since 1979 the wages paid to re-entry jobs have collapsed. Almost half of the jobs which go to those re-entering work pay less than a quarter of median earnings: ie below £56 per week.

Now consider the benefit system. Unemployment benefit is paid for twelve months but will soon be cut to six. During this time a wage earner picks up £48.25 a week without questions being asked about a partner's earnings. The search is therefore for a job which pays above, and hopefully well above, the benefit level. Now consider what happens when there is no insurance benefit. A means-

tested income is only offered after taking into account the partner's earnings. The benefit income of £150 plus from income support and housing benefit is more than the income most partners would gain from work. Pound for pound is deducted from any of those earnings except for a miserly disregarded amount. The outcome is obvious. The partner gives up work too. It pays her to do so. She is reacting as a rational economic person. But once out of work what chance is there of either partner finding a job paying more than benefit? Remember those re-entry jobs - most below £56 a week? Here then is the basis of the work/no-work households and it will be made much worse as the new Jobseekers' Allowance cuts unemployment benefit entitlement from twelve to six months.

How To Pay For The Future lays down the basis for a stakeholder's national insurance scheme where those taking re-entry jobs, which often have a short shelflife, are rewarded for so doing. They will quickly requalify for insurance benefit. Risk-taking is therefore rewarded. Families are kept off means-tests. Long-term dependency is countered rather than encouraged by the benefit system. Work is more evenly spread throughout the community. Household income thereby becomes more equitable and a start is made simultaneously in closing what has been the widening income gap which has so disfigured Britain, particularly since 1979. The National Insurance Stakeholder reform sets out the scene for curtailing the spread and then for the reduction in means-tested welfare. But the savings from this approach will be gained only in the longer term.

Dealing with the immediate financial crisis and welfare's dependency culture puts means-tested income support as the central issue. Indeed the financial crisis, and the spread of the dependency culture are, as I have already argued, intimately linked. A government wishing to roll back this culture, and a Labour Chancellor anxious to prevent the welfare budget from imploding, has to consider the means-tested income support welfare budget if the current position is not just to be tinkered with, but radically altered. Moreover, if welfare's bill is to be controlled, and if a higher proportion of its monies are to be spent encouraging values which the wider electorate supports, an attack on the dependency culture about which the Government so hotly rails, while simultaneously spreading that very culture over greater and greater numbers of

people, is essential. How can these objectives be achieved?

Making Welfare Work argued for a simple but revoluntionary approach. Its plea was for a rejection of the whole strategy which has dominated the poverty agenda ever since the mid 1960s. Since the early years of the Wilson Government the approach has been to devise programmes for helping particular groups of the poor, first by designating very poor areas for priority in government funding, then by singling out particular groups of the poor, such as the unemployed or single parents, and latterly, targeting only sub groups, ie those who are unemployed for over two years.

As the policy objectives has narrowed so too have the criteria for what makes a successful reform. The debate, instead of concentrating and advancing first principles, has collapsed into a near obsession with fine tuning the regulations governing entitlement, offering a little incentive here, building a disincentive there. A comparison with the First World War is apposite. When war was declared in August 1914, the expectation was for a quick sweep through France, then onto Berlin, with the troops returning home by Christmas. It was not long before this grand strategy became bogged down in the mud of Flanders' fields. Government ministers look increasingly like those First World War generals whose vision collapsed into a mere obsession over gaining or regaining the next trench. Progress was tortuously slow and the expense unjustifiable. So too with this country's anti-poverty strategy. The whole effort is directed to fine tuning without casting a glance at how the various programmes are impacting on human nature and the motivation, both of those groups targeted by reform, and, equally importantly, of those who are excluded.

Moreover, all these modern anti-poverty programmes share a further characteristic. They aim at doing good to the poor. They do not seek to liberate the poor. They aim to control the actions of the targeted group and, consequently, only a limited range of options are offered.

This conventional wisdom about how best to help the poor should be opposed, not simply because it patently has not worked, but also, quite simply, because it no

longer meets the challenge. The long-term changes in the distribution of income has had the affect of kicking more and more people down to the bottom of society, and for those at the bottom the prospect of destitution is once again a real possibility. From time immemorial the beggar was part of British life. The first legislation to tackle the problem appeared under Elizabeth I. Begging became extinct during Mr Attlee's stewardship, only to return again under Mrs Thatcher. Today's anti-poverty strategy, whose roots go back to the 1960s, no longer offers the chance of succeeding in an age of mass pauperisation.

But that is not all. There is worse to come. The form of help offered is now part of the problem, not part of its solution. The numbers on means-tested welfare grow inexorably. Each means-tested claim helps feed the next. Means-tests interact in a perverse and pernicious way on human motivation and thereby on character. Any imaginable welfare state will need a means-tested safety net acting in a limited manner for those without income from work, wealth, or insurance entitlement. That was the role sensibly envisaged by the Attlee Government for means-tests. But that emphatically is not what we are faced with today. Consider only the three main means-tests - income support, housing benefit and family credit. A third of the entire population lives in households drawing one of these means-tested benefits - an unsustainable proportion which has doubled since 1979, and one which is still growing.

The crisis we face is urgent. The hour is late. A dramatic initative is required which aims not to undermine the growing army of the poor still further but quite simply to change the political culture in which welfare operates. Moreover the strategy must offer hope to the many rather than the few.

The issue immediately arises of what kind of strategy needs to be adopted if this dual crisis - of finance and dependency - is to be countered. Up until now, all the attempts at reform have been piecemeal, targeted efforts. The continuation of such an approach must be resisted. I am not, however, making an appeal for a 'big bang' solution. After the Child Support Agency fiasco I simply do not have the courage or the foolhardiness to do so. The CSA fiasco has understandably undermined the confidence of reformers. Rather it is a plea for a strategy

which reverses the traditional approach. Instead of singling out particular groups of claimants, and doing good to them, the reform is devastatingly simple. Its aim is quite simply to set the claimants free. In 1976 I argued for the mass sale of council houses, that this should be Labour's policy, and that this policy should specifically be presented in terms of freeing the millions of tenants from the serfdom imposed upon them by autocratic local authorities. I now make the same plea for income support claimants. It is time similarly to free them from the bondage of the Poor Law dependency which excludes them from the labour market. Such a programme would turn millions of claimants into a great engine force against the growing culture of dependency.

Making Welfare Work outlined such an approach. The proposal was not a national programme offering help to single parents, or the unemployed. It offers the opportunity to **all** claimants to escape means-tested dependency. It is nothing less than a turning of income support from a passive into a proactive agency. Even as a passive agency income support does not score very highly. The Comptroller and Auditor General has qualified the accounts each year since the scheme came into existence. The Agency has two tasks: to pay benefit and to check on fraud, neither of which it does with much finesse. The Comptroller's last report puts the error rate at over 16 per cent for the payment of benefit. In addition fraud is detected in one in ten claims.

Even worse than this pretty abysmal record is the fact that income support can only be paid if claimants remain idle. There are examples where this rule does not apply - there are the disregarded sums for those with other income. But the latest figures show that most of this disregarded income is claimed by pensioners, and not by those of working age. So these exceptions make little difference to the tenor of the organisation. It fulfils the main objective of the old Poor Law. Those now requiring help do not have to enter the workhouse. But an equally telling exclusion is insisted upon. Generally speaking these individuals are excluded from the labour market. It is easy to understand that such a policy might be unthinkingly adopted in the early post-war period when overwhelmingly it was pensioners who sought help from the then National Assistance Board. That is no longer the case, and has not been so for almost two

decades. Today, for every pensioner on income support, there are almost five other claimants of non-pensionable age.

Making Welfare Work proposed a fundamental reordering of income support, its objectives and the delivery of its benefits for those below pensionable age. The idea that income support should be paid while people await a return to the labour market is no longer appropriate - nor is it a desirable objective in an age of widescale fraud. Breaks in employment are, for all too many, no short spell of idleness, but a condemnation to a long-term exclusion from the labour market.

Making Welfare Work proposed that every claimant below pensionable age and who is fit for work would be expected to plan for what they want to do and achieve during the rest of their working lives. Everyone would be concerned with drawing up a career or life plan. All too many of my constituents have never been accorded the dignity of being asked simple questions about their hopes and wishes for the future, let alone how they might go about to achieve such goals. They therefore have no sense of a goal, a general direction or of any official support in achieving anything.

Of course, the scheme could not immediately be brought into universal effect. It would have to be phased in. I have suggested in **How To Pay For The Future**, how this plan will work, starting with those aged under 26. This is the group which gains a lower rate of benefit. Even so, I judge the take-up rate will be such that local staff, whose skills will have to be extended to make the reform effective, and combined with the expertise of their job centre colleagues, will be overwhelmed with takers. Income support will be used as an educational maintenance allowance for those going on training courses to help them achieve their career objectives. It will, of course, be necessary to limit further this scheme to those aged under 26 and who have been on benefit for two years. Otherwise there is the danger of the Filofax families tipping their offspring on to income support to ensure that all the stages of further education are paid for by income support grants.

It will also be necessary to link in one further reform. Student grants should

be converted into universal loans, run by the private sector, with the sums being clawed back through the tax system. The £1.1bn thereby released will be used to expand nursery education and child care facilities. There will be no additional revenue costs, but parents on benefit will have the chance of fully participating in the income support liberation programme.

This enfranchising measure will simultaneously achieve a number of key objectives. It will signify that:

- the old system of income support is coming to an end;
- a large part of the dead cost of welfare's budget will be turned into an investment budget.
- claimants will have both an opportunity and duty to build their own life rafts from dependency;
- genuine claimants are liberated by this reform while at the same time acting as an effective check on fraud.

Allowing claimants to devise their own exits from benefit transforms the millions who are currently relegated to mere onlookers to their own fate, into an army of activists in the battle against dependency. For that will be the inevitable outcome of allowing individuals the chance to use their benefit payments as training and educational investment allowances. No policymaker, however clever, has the technical knowledge or the brainpower equal to those millions who are currently condemned to stand on the sidelines while Britain struggles to reorder itself. That is the extent of the force which waits to be reincentivised.

Claimants invited to discuss their career plans should know that an amnesty operates for those who admit that they do not need a career plan for the very simple reason that they are already fully occupied and working. If an amnesty can be given for those returning dangerous knives one can surely be offered on this war for income support fraud, thereby drawing a line under the problem.

The reform would also have a major impact on the level of fraud against the DSS. The Comptroller and Auditor General's figure of fraud in one in ten claims which

was cited earlier is, I believe, an underestimate. It is against a proper realisation of the extent of fraud that changes in the running of the DSS must be viewed. The Government's decision to phase out routine home visits had a doubly damaging effect on the efficient running of the Department. Officials involved in visiting claimants in their own homes were able to advise claimants, often pensioners, on their full entitlements. Officers returning to base after such visits would also give fraud officers much information about following up suspected fraud which they had gained only because they had undertaken detailed visits to particular localities.

The Government is now considering introducing self-assessment for some benefits. One wonders what world they are living in. It has proved impossible for this government to deal effectively with fraud where claimants are required to produce collaborative evidence supporting their claim. The Department is now planning to invite people to make their own claims for benefit. Such a scheme might have worked in the Garden of Eden. It certainly has no place in the rough and tumble of our fraud ridden world.

It is here that the proposal to change Income Support from a passive to a pro-active agency is important. The reform offers real opportunities to claimants planning the next stages of their lives. It simultaneously will act as a massive check on fraud.

Since this proposal for a pro-active agency was made in **Making Welfare Work** the Social Security Select Committee made a visit to New Zealand to study their pension arrangements. What the Committee found was a reform almost identical to that proposed in **Making Welfare Work** already in operation. Three consequences were very apparent.

- Large numbers of claimants had freed themselves from benefit and into work.
- Over two hundred suggestions from staff for further reforms of the social security system have been put into operation.
- Large numbers of claimants when invited for an interview to plan their

careers admitted they needed no such plan as they were already in work. This group then left the welfare roll under amnesty arrangements.

The same results I believe would result in Britain if the **Making Welfare Work** proposals for an active agency were implemented. Amnesties should be offered to all those coming forward to close a fraudulent social security account. We would find here that, as in New Zealand, the actual social security budget began to fall - not as a slowdown in the rate of increase which is all politicians have so far offered - but by an actual decrease in the budget in money terms. That will be achieved simultaneously with offering claimants the opportunity to plan their own lives. If these plans became effective further cuts in the welfare budget would then naturally result.

Attlee's welfare settlement is being transformed and once again this area becomes the high politics of our time. In this lecture I have argued that three inter-related reforms are urgent. Clear red or blue water - depending upon which ship one is in - should emerge over pension reform. Will Labour move to make second funded pensions compulsory? Such a move would enshrine the Attlee principle of universality and inclusiveness, but would apply the reform through the private and mutual aid sectors. Failure to embrace compulsion will leave little difference between the Tory strategy and that which Labour intends to adopt. Only by universalising will the stakeholder as an inclusive concept become valid.

A second reform concerns establishing a stakeholder national insurance scheme. Here I have argued that the reform should be introduced so that it deals first with unemployment and the introduction of a new care pension. Again, as with pension reform, this change will require increases in income allocated to welfare, although the increases will be controlled by the contributors, and the increases will to some extent be matched by cuts in taxation as the new insurance schemes take effect.

It is in the third reform, of converting the passive income support into a pro-active agency, that the largest changes will occur, both in the opportunities offered to the poor, and in saving very substantial sums of taxpayers' money.

The plea here is one which matches the scale and change brought about by the sale of council houses. Put simply, it is about setting claimants free, allowing them to use their income support payments to build their own liferafts from dependency back into the labour market. I have argued that such a reform will be as effective in controlling fraud as it will be in offering freedom from the Poor Law culture of inactivity imposed on millions of income support claimants.

Frank Field
February 12, 1996

ATTLEE LECTURE GIVEN BY FRANK FIELD, MP, IN THE JUBILEE ROOM, HOUSES OF PARLIAMENT, ON 13 FEBRUARY, 1996, FOLLOWED BY A RECEPTION IN SPEAKER'S HOUSE.