

Reforming zeal

by Patrick Wintour and Andy McSmith

Welfare isn't working —

It's the debate Blair didn't want — at least not yet. Now he has to be radical without appearing mean

IT'S MORE THAN JUST A SAFETY NET FOR THE POOR. TAKE, FOR EXAMPLE, THIS TYPICAL MIDDLE-CLASS FAMILY

MICHAEL Jabez Foster is one of dozens of industrious but little-known New Labour MPs swept into the Commons in the May landslide. Where he has attracted attention so far it has been largely because he gets mistaken for his namesake, Mike Foster, the Worcester MP who has brought in the bill to ban fox hunting.

But last week at a private meeting of Labour MPs, Foster, the MP for Hastings, told the Social Security Secretary Harriet Harman a tale which shocked even her and has been passed gleefully around the Commons tearooms. He announced that, though his constituency party had always been solidly right-wing, when he tried to donate a bottle of wine autographed by Tony Blair as a raffle prize last month they refused to accept it out of disgust with what they see as attacks on the poor.

The meeting between Harman and the members of the backbench Social Security group was tense. Normal attendance at such meetings fluctuates between six and 10, but last Wednesday's, in a Commons committee room, attracted around 40. Harman gave nothing away about the detail of any changes to the welfare system, but was clear about the case against the status quo: nobody really believes it is working well, least all of the claimants who are supposed to benefit from it: there is too much fraud; and too much of the welfare budget is going to the middle class, while the poorest 20 per cent of the population have seen their share drop.

In one respect, Harman could claim a political advance because by the end of

the meeting it was clear that even the most vociferous leaders of last month's rebellion against cuts in lone-parent benefits were not arguing against the general principle of reforming the welfare state.

On the other hand, she could not have been left in any doubt about the scale of the political task ahead. The criticisms from well-known opponents of benefit cuts, such as backbenchers Ann Clwyd and Audrey Wise, were intense.

Wise, who was first to speak, urged that the way to make the system fairer was not to take benefits away from the middle class through an affluence test but to charge them more by abolishing the ceiling on National Insurance contributions, adding 9p in the pound to the marginal tax rate for high earners. She also warned that the emphasis on fraud risked stereotyping all claimants as scroungers.

But party members who confronted Tony Blair in the first of his welfare state 'roadshows' in Dudley Town Hall the following night seemed not to agree. Blair was urged to come down harder on social security fraud by an audience which appeared to be friendly but concerned about welfare reform. 'I have not sensed since you came to power that anything has changed. I get the feeling that things are just the same,' one teacher told him.

The fact that Blair was given a standing ovation on his way into the hall and another as he left will doubtless give him some confidence that the battle for party opinion can be won.

He has said his government is in the post-euphoria, pre-delivery phase. He realises that the sudden public debate on welfare, especially in the



WITH EARNINGS of about £500,000 a year and the use of a large central London home and a country house in Buckinghamshire, it might be thought that the Blairs have no valid claim on the welfare state, but they are entitled to £30.06 per week child benefit for their three children, and

in the unlikely event that she decided on a fourth, Charlie could claim thousands of pounds maternity benefit to cover lost earnings. Grandfather Leo Blair was brought down by a stroke at the age of 40. Today, he might have found himself drawing a Disability Living Allowance. Grand-

father Tony Booth, who today would have been pursued by the Child Support Agency over his chaotic domestic life, recalls signing on in Lisson Grove in his acting days. That was before his appalling accident, when he was almost burnt to death and spent months in hospital.

media, is horribly premature. Expectations have been raised about reform which Ministers and policy makers, wrestling with intellectual and statistical problems, simply cannot yet meet.

The difficulty stems back to Labour in Opposition. In 1994, the Social Justice Commission, headed by Lord Borrie, and set up by John Smith in 1992, provided a lucid analysis of the welfare state's failure to adjust to a new labour market and new family structures. It addressed head-on the issues of means testing, compulsion

and encouraging greater private provision. Its proposals might have represented a route map for government, but even though the commission's secretary, David Miliband, is now head of the No 10 Policy Unit, the Labour frontbench in 1996 subtly distanced itself from the report. Its ideas were either insufficiently detailed, or too expensive, to be adopted by an Opposition nervous of spending commitments that might alienate Middle England.

After the report, the then Social Security Secretary

Chris Smith tried to work up some more detailed proposals, but he was famously sat upon by Shadow Chancellor Gordon Brown, alarmed at their potential cost. Brown's own attempt at a tough choice in social security before the election — removing child benefit for parents of 16 and 17 year olds in education — created a storm and was shelved.

As a result the party went into government, vehement in its criticisms of John Major's own radical proposals, but with very few detailed social security plans of its own. Indeed, the manifesto merely promised to retain universal child benefit and not means test the basic pension. Apart from that, the party's thinking was opaque.

Disastrously for Blair, once inside government, the policy-makers, largely harnessed by the empire-building Brown, were only beginning to wrestle with welfare when two events poleaxed the Government.

First, there was the decision to go ahead with the cuts in single-parent benefit. Brown insisted on it to save £300m and build childcare, and only when it was too late did the Treasury understand the breadth of the rebellion. By then it was adjudged too humiliating to go into reverse. The episode ensured that welfare reform was from the outset perceived as a cuts programme.

Second, leaks started appearing over the Government's earliest thoughts on disability, creating panic in the disability lobby. Events got so badly out of synch that David Blunkett, the Education Secretary, sent a letter to Brown before Christmas denouncing a social security official's paper floating a means test for Disability Living Allowance when Brown had not even seen the paper, let alone endorsed it.

It was in this fevered atmosphere the week before Christmas that Blair had a crisis strategy meeting on welfare with his closest advisers, who argued that he needed to harness the controversy to put his case for change. What was needed was a sharp critique of the modern welfare state, but the long-awaited Green Paper on welfare reform being prepared by Welfare Minister Frank Field was still some months from completion. Early drafts were either too Delphic, abstract or unappealing to the Treasury. Blair was persuaded he would have to make a virtue of the premature controversy by selling the message that the status quo on welfare was not an option. His message was to be simple according to one Cabinet Minister: 'We have got the worst of all worlds, a growing social security bill and growing inequality and poverty.'

Blair agreed to a massive Clause 4-style welfare roadshow to put the case for change. The Social Security department was directed to publish detailed files, prepared in November, setting out statistics on poverty, benefit trends and wel-

fare. Blair was also shown polls on the public's attitude to social security. These showed the poor and the most frequent users of the social security system are those most critical of its current structure while voters in the C1 and C2 socio-economic groups (semi-skilled workers) feel most keenly about fraud. For instance, the C1 and C2s said typically: 'The welfare state should be reformed'. It encourages people to be on benefit rather than in work'. 'Too many people are on the dole while the hard-working

classes foot the bill and the really needy miss out.' The polls also showed the public believed that lone mothers had a special duty to work and supported the concept of conditionality — that you should do something in return for benefit.

BLAIR also decided to take charge of welfare reform personally within government. His advisers pressed him to chair a new Cabinet Committee, instead of Brown, because it would dampen the perception that this was simply a Treasury-led review in search of spending cuts. It was also agreed that left-wingers such as Frank Dobson, the Health Secretary, and John Prescott, the Deputy Prime Minister, sit on the committee. Blair could if necessary act as honest broker between these men on one side, and Brown and Harman on the

other. However, the announcement of the setting up of the committee, on the Saturday before Christmas, only increased the growing flood of speculative stories. As John Hills, from the welfare unit at the London School of Economics points out, Blair is defenceless against such stories. 'He is a good salesman, but without a product at present to sell. He is really saying give me a bit more time and trust me in the meantime.' One Central Office official, who worked with the Tory Social Security Secretary Peter Lilley, was scathing on Labour: 'They made the big mistake of raising expectations. Peter avoided those pitfalls. It is far better to do it slowly and quietly.'

Paddy Ashdown is equally scathing. 'For a government of avowed superb communicators, they have been disastrous getting across their messages on welfare.'

There also seems to be a realisation within Downing Street that it needs to cool the rhetoric. Thus, Frank Field in his speech last week to the Centre of Policy Studies went out of his way to insist there would be no big bang, even though in the past he has advocated the biggest bangs — the replacement of means-tested benefits with an expanded social insurance system.

Instead, the signals are that the Green Paper, to be published three weeks or so before the 17 March Budget, will map

out options for piecemeal reforms. The outlines of a possible settlement are also slowly becoming clear. Brown will use the Budget to announce the results of the review conducted by Barclays Bank chief Martin Taylor into work incentives. It will back the idea of a Working Family Tax Credit, paid through the pay packet and replacing Family Credit, paid by the DSS. Brown is now convinced that it will not undermine the principle of independent taxation of women any more than Family Credit does at present.

The Working Family credit will have a twofold advantage. Take-up will be higher and the psychology of dependence will be reduced since the money will come via the pay packet, rather than the DSS, so increasing work incentives. Brown is also certain to introduce his 10p tax rate to reduce marginal tax rates for the low paid. He will also soften the impact of National Insurance contributions. At present, if your weekly earnings go above £62 you suddenly pay £1.24 in extra contributions.

All this emphasis on work incentives and the work ethic will underscore Harman's mantra that worklessness leads to dependency. There are now 2.8m people of working age — twice as many as in 1979 — who claim benefits because of ill health or disability. The current system, Harman claims, at a cost of £7bn a year positively encourages those who are less than fully fit to see themselves as totally if not permanently out of the labour market. Harman favours the idea of a partial capacity benefit, which has also been endorsed by Field.

The third — and most complex — area of reform will be pensions. It is now pretty clear that the Government will propose a funded, second-tier stakeholder pension. It will resist means-testing the basic state pension, but refuse to increase it in line with earnings on grounds of cost (the latest estimate is an extra £2bn a year). The big outstanding issue is whether Blair will risk supporting compulsory savings for second-tier pensions, in effect a new tax. In Opposition, he opposed the idea, but Frank Field is a strong supporter.

Changes are also imminent to the Child Support Agency following a review by Keith Bradley, the Social Security Minister. Hilary Armstrong, the Local Government Minister, is examining housing benefit, but there are few signs of any quick fix there.

Finally and most radically, the DSS is looking for ways to use computers to integrate benefits covering the Employment Service, the DSS, local authorities and the Inland Revenue. The implications are already causing jitters in the Employment Service.

It adds up to a formidable agenda, but if it does not start to clarify soon, William Hague's warning that welfare will become Labour's Vietnam — a campaign without a target — will not seem such an absurd analogy.



Increasing the basic state pension in line with earnings would cost an extra £2bn a year. Photograph by John Reardon

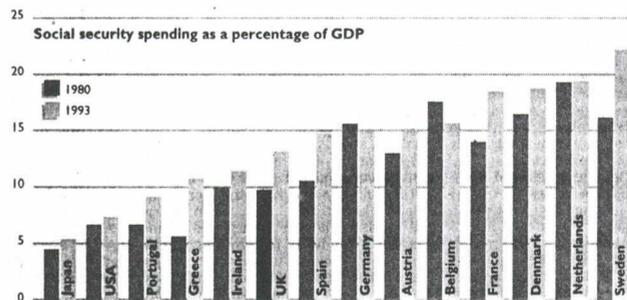
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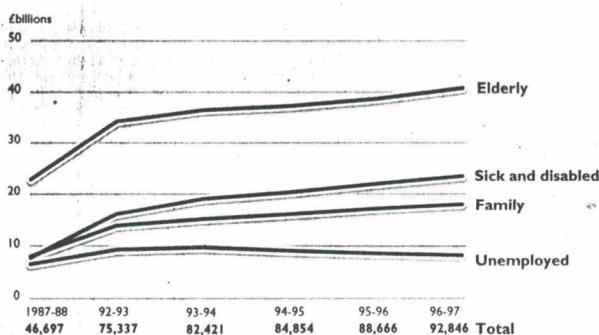
but will anything else?

WHERE BRITAIN STANDS IN THE LEAGUE

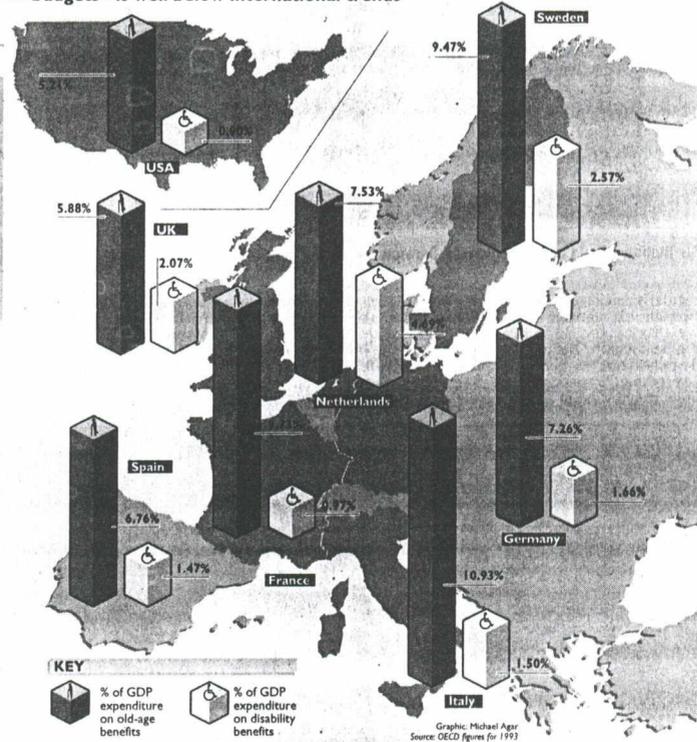
1 Britain is towards the bottom of the European spending league ...



2 ...benefits for the sick and disabled have grown particularly sharply...



3 ...while spending on the elderly - the single largest element in national welfare budgets - is well below international trends



If you think we've got problems . . .

. . . just look at the soaring costs in some other countries. Andrew Adonis reports

THE WELFARE state has been pilloried as unaffordable, failing and unsustainable ever since its foundation 50 years ago. And in common with almost every government since Attlee's, Tony Blair's is invoking the prospect of fundamental reform. Yet true to form, the reality will be incremental change in response to contradictory pressures.

Despite Blair's warnings about the spiralling costs and failures of the status quo, putative New Labour policy, particularly on pensions and welfare-to-work, will involve a large increase in spending, however carefully it is separated from the social security budget.

It is equally clear that 'big bang' reforms are non-starters. 'We've learnt that lesson from the poll tax,' says a senior adviser. Like Margaret Thatcher, Blair is using bold rhetoric to clothe piece-by-piece change. Even Frank Field, the iconoclastic Labour welfare guru, stressed incremental change in last week's Keith Joseph memorial lecture.

Alarm is misplaced. The total social security budget is £95bn — a huge figure, yet in financial terms the system is far from 'unsustainable'. After the last round of Lilley reforms — halving the duration of unemployment benefit (renamed the Jobseeker's Allowance) and curbing entitlements to a raft of benefits, particularly Serps, the state top-up

pension — spending is projected to fall as a proportion of GDP.

As a share of national income, Britain's social security spending is well below that of other large EU states (see graph). 'And those that spend more are not growing more slowly, so the idea that higher spending destroys competitiveness is dubious,' says Mark Pearson, a welfare analyst at the Organisation for Economic Cooperation and Development.

Among its EU counterparts, the British Treasury is almost uniquely well-placed in two respects. First, it has defused the so-called 'pension time-bomb' obsessing most finance ministries, facing the prospect of generous state pensions being claimed by a retired community projected to grow from the equivalent of a fifth of the working population in 1990 to more than a third by 2030.

The Thatcher government's decision in 1980 to link future increases in the basic state pension to prices, not earnings, at a stroke relieved the single biggest pressure on the welfare budget. Britain's state spending on old-age cash benefits, accounting for nearly half the total social security budget, is towards the bottom for the developed world — almost as low as the US, far below France and Germany, and barely half the level of Italy, where pensions reform is a cause of perennial crisis.

Second, Britain's state benefits are

mostly at subsistence levels, even for those who have paid full national insurance contributions. Income-related unemployment benefit was abolished by Thatcher, and Serps has been progressively scaled back. Income-related maternity pay is now in the firing line too, so ingrained is the British notion that state benefits should be at about the poverty line. 'If you want more, go private' is the guiding philosophy: hence Britain's uniquely large occupational and private pensions sectors, covering the (mostly) better-off, subsidised by tax breaks.

AT A conference of US, British and German parliamentarians on welfare reform two years ago, the Brits and Americans gasped as a German explained Bonn's unemployment insurance system, providing claimants with about 80 per cent of their previous income for one year and a somewhat lesser income-related figure for another two years — after which came basic assistance, without time limit, far in excess of the equivalent available in the UK. 'Why does anyone bother to work at all?' asked a Labour MP, now a Minister in the thick of welfare reform.

With the controversial exception of lone parents' benefits, few argue that Britain's welfare payments are too generous. In the case of pensions

there is general concern that they are too meagre for those without private provision. The Government is likely to introduce a compulsory second pension scheme for those in work but not part of an existing scheme: it will not be managed directly by the state, and its payments will not count as public spending, but it will require significant extra public spending if all pensioners are to be brought up to the 'second pension' level.

Beyond pensions, Labour reformers are focusing on two issues: the terms on which benefits are paid, particularly to the disabled, the fastest growing group of claimants; and the question of 'benefits for the rich'.

Welfare-to-work is a key aspect of the first agenda — again involving more, not less public spending for new schemes and employment and childcare subsidies. Less noticed is reform of welfare bureaucracy. This is arguably Field's most compelling theme. At present, 'signing on' is a purely bureaucratic process. Field advocates a 'proactive employment service' providing real and regular job-search support.

However, those on disability and lone parents' benefits almost never have to report to any welfare official, once their benefit has been assessed. The social security department is piloting work-search interviews for lone parents on benefit, among whom the average period on income

support is five years. Some advisers believe that formal interview and advice sessions also have great potential for tackling the lengthening roll of disability claimants.

'Cut disability benefits, and there will be protesters in wheelchairs 10 deep down Whitehall,' says one adviser. 'What we should do is to write to them — "Dear Mr Smith, the previous government abandoned you. We would like to see if there is anything we can do to help you find work and lead a more fulfilling life. Please come in to meet one of our disability advisers next Wednesday at 10am." 'The cost of such a service would be large; but unlike welfare-to-work, there could be an early cash payback says the adviser.

DLA and attendance allowance — the fastest-growing benefits, now costing nearly £8bn a year — highlight the means-testing agenda. Intended to help the disabled and their carers, they are neither means-tested nor time-limited. 'You can get carer's allowance if your child is between five and 12 and has asthma — you just fill in the form. What's the sense of that?' says an adviser.

Put thus, it is clear how technical and piecemeal much of the process will be. Some major changes are in the offing, particularly second pensions. But as Peter Lilley realised, effective welfare reform is largely the art of a thousand modifications and minor initiatives.

else?

Find a better way to soak the rich

Peter Kellner argues for equal benefits for all

THIS IS the big one. Welfare reform matters not only because of the huge amount of money involved, but also because the very purpose of progressive politics is at stake. Under the guise of pursuing one laudable ambition — averting poverty — Tony Blair risks undermining another: the attainment of a one-nation society.

Britain's £95 billion-a-year social security bill supports two functions. One is to help the poor; the other is to provide social insurance for all. The key difference is that poverty relief is means-tested, while social insurance payments are not. The rich are as entitled to them as the poor.

It is not hard to make the case for axing middle-class benefits. Of the £95bn bill, £8bn goes to the best-off 20 per cent — families earning £30,000 a year or more. The state could scrap all their 'social insurance' benefits, and do far more to help the poor and improve our health and education systems. The redistributive effects of this measure would be enormous.

shared interests to all. There is a strong argument for advocating this as the purpose of progressive politics, now that most of the Left has discarded traditional socialism and accepted that wealth creation is best achieved by private companies competing in open markets.

One hundred and fifty years after the publication of the Communist Manifesto, Marx's predictions look ridiculous, but his underlying diagnosis holds up. Unbridled capitalism provokes inequality and insecurity; it shatters traditional social bonds; it denies people and even countries the power to control their destiny.

The Left has abandoned its dream of replacing capitalism; but it need not abandon the aim of moderating it: to act as a buffer between citizens and the market. The task for the Left is to convert a negative concept (preventing the market creating too much inequality and insecurity) into a positive concept. We know that the state should be *against* unbridled capitalism, but what should it be *for*?

The quest for an inclusive, tolerant, one-nation society could provide a large part of the answer. This means more than poverty relief, a mini-

So why should progressive people oppose it? There are two technical answers — and one, far larger, philosophical answer, to do with the purpose of progressive politics.

He should not cut benefits for the well-off, but raise their taxes

First, all working people pay national insurance. If some people are to have their insurance rights removed or greatly curtailed, then the argument for sharply reducing their national insurance payments will be compelling. The Government would end up saving far less than £8bn.

Second, state insurance is cheap to run because every body uses it and the money is raised through the tax system. The private alternatives would be more expensive: administration would cost more and insurance premiums would have to finance promotional expenditure and profits to shareholders — not to mention bonuses for sales staff and commissions to brokers. Premiums would climb even higher for people whose health, lifestyle or circumstance puts them in a high-risk group.

Those two arguments alone justify the maintenance of social insurance for all. But they are dwarfed by the broader political case. Blair has cleverly and rightly claimed 'one nation' as a Labour slogan. The establishment of a Social Exclusion Unit shows this ambition extends beyond rhetoric. But a truly inclusive, one-nation society embraces the well-off as much as the poor. It is about extending common ground, mutual regard and

During his campaign to become leader of the Labour Party four years ago, Blair suggested socialism should be hyphenated. We should, he said, advocate social-ism. Revolutions are not normally fomented by punctuation marks; yet he was right. The distinctive character of progressive politics should be its social purpose.

It is in this context that universal social insurance is so important. It broadens the area of shared interest and experience. As a well-designed safety net helps to prevent the social exclusion of the poor, so universal benefits help to prevent the social exclusion of the well-to-do. So do good state schools and a well-funded health service. Blair is right to seek more money for them, for the same one-nation reason that he should defend universal welfare. His strategy towards the better-off should be not to reduce their benefits, but to raise their taxes.