6 | TAKING THE LONG VIEW ON WELFARE POLICY

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Labour's welfare policy has been more concerned with addressing the injustices of now rather than taking a longer-term view. But the missing link in the current discourse over welfare policy is how it can be made to work by using the power of time.

The child trust fund, children's centres and the pension system show that by harnessing the market to build assets over people's lifetimes, we can make even greater progress, particularly when government resources are constrained. The lessons learnt from these experiences have great potential to be applied to other public policy questions in order to create an economy that works for our children and grandchildren.

If old Labour was over-suspicious of markets, and New Labour – let's face it – was in awe of them, then the next Labour government needs to have the confidence to harness the power of markets to achieve the social ends we desire.

Ed Miliband reaches towards this when he said that "our family policy needs a better economic policy" and talks of rebalancing the economy in the national interest. What we need now to explore is how these concepts work over time, how our actions will not only meet today's problems, but also tomorrow's. People are rightly interested in making provision for their children and grandchildren; Ed Miliband said it was our "national mission" to meet these hopes head-on. The missing link in the current discourse over welfare policy is how it can be made to work by using the power of time.

Labour's record in office on welfare reform was good. The main success was the redistribution achieved through the tax credit system to low earners, particularly those with families, and pensioners. In the debate about what happened to the richest, this often gets ignored.

In chapter 5, Kate Green shows how we can build on this success and reform working-age benefits further to create greater prosperity – for individuals and families and also for the country as a whole. But by taking a longer-term perspective and harnessing the power of the market to build assets over people's lifetimes, we can make even greater progress, particularly when government resources are constrained.

As a historical movement concerned with social justice, we understand the role of the state to change the life-paths of those that were denied opportunity by accident of birth; but in our welfare policy we have been more concerned, understandably, with addressing the injustices of now – particularly regarding child and pensioner poverty – rather than taking a longer-term view.

There were three main exceptions to this. First, was the child trust fund, where new parents were given a voucher worth £250 for their child (or £500 for the poorest) to be invested in a fund that could grow over time until the child reached maturity. When this broke through as an issue during the 2001 election campaign, an old friend of mine who now lives in the US felt compelled to get in touch to say it was the most progressive and innovative policy idea he had ever heard.

As it happened, the market leader for the provision of child trust funds in the UK ended up being a mutual company. But the exciting thing about the policy was not the ownership structure of the firms in the market it created, but its use of the power of the wholesale markets to build assets for everyone, regardless of the circumstances of their birth. The policy also gave a glimpse of a deeper understanding of the role of the state – one that is more akin to Rowenna Davis' championing of the positive power of small-c conservatism in chapter 9, where families are strengthened, futures are safeguarded, responsibility cherished and trust placed in institutions that can help you achieve these things. A voucher to kick-start a habit of hopeful saving for a new person's life was worth more to society than its mere cash value today, for its acknowledgement of the love it was supporting and its ability to build something of greater worth tomorrow. At least, it was. The voucher has now been scrapped.

Similar foresight was shown in the establishment of children's centres which, coupled with ensuring free part-time nursery places, gave children from less affluent and/or non-English speaking backgrounds a fighting chance to start school on a level pegging with their peers, and their parents the chance to return sooner to the labour market. The social outcomes from that investment could not be scored on a government balance sheet, neither could the children who benefitted from it ever vote for the politicians who introduced it, yet the common sense of such early investment was clear. And, again, it demonstrated the wider role for the state by creating new trusted institutions that acted as beacons of hope and empowerment for the individuals who flocked to them.

The third example was the action to deal with the effects of ageing on our pension system. This had become more urgent because of the numbers involved, but nevertheless it was a Labour government that led a cross-party consensus, aided by the Turner Commission, not only to raise the retirement age but also to require employers to contribute to their employee schemes. Labour also created the National Employment Savings Trust (NEST) to provide simplified and portable private pension products for all employers to offer that will grow in time on the financial markets. With NEST created by an order of parliament and unable to turn down potential members, the parallels with the local mutual savings societies of 100 years ago are clear.

Asset-based welfare

The lessons learnt from these experiences – building financial cash assets through child trust funds and private pensions, and human capital through children's centres – have great potential to be applied to other public policy questions. These are the concepts we should be exploring in the run-up to the next election in order to meet Ed Miliband's desire to create an economy that works for our children and grandchildren.

Pensions

The well-off are already working hard to build the assets they need for retirement. Thanks to the recent changes, far more employees, regardless of income, will now do the same. The challenge is to increase the incentives to save for people whose current economic circumstances make even more insecure.

First, more attention should be paid to those who are working but not employees. I once rang HMRC to ask why self-employed people could not earn credits towards an 'additional' state pension, when employed people could. I was told that if you are self-employed you have made a decision to go it alone, rather than be part of the system of support that exists for employees. This attitude is wrong. While it might have seemed logical when the great injustice was the mistreatment of the mass of 'workers' in an earlier phase of industrialisation, it is patently wrong when we consider that in today's economy the most vulnerable are the increasing numbers of people who do not have permanent contracts.

The under-pensioned of the future are those who are not protected now. They are more likely to be low-skilled, and work flexibly and insecurely. They may run their own businesses, or be contractors and freelancers, all of whom are heavily dependent on the economic situation. Or they may be unwell or juggling work with family responsibilities and so change jobs frequently to fit in with the other pressures in their lives.

For low-income casual, short-term and self-employed workers, as defined by their tax returns, credits should be provided by the government into NEST schemes, equivalent to the employer contributions for employees, so that these individuals can build their own private pension pot through the markets and so save the state money through top-up pension credits when they come to retirement age. A truly radical government would also consider how the savings habit could be encouraged for those on benefits. We introduced the Savings Gateway to match tiny contributions into savings accounts from those on benefits with government funding. It was abolished in 2010 but the core idea remains valid.

To the extent that this costs money in the short term, it can be addressed through reform of the tax treatment of pension contributions. At present it is deeply regressive. Not only is state pension eligibility dependent on national insurance contributions, which take up a higher proportion of the salaries of the less well off, but the private pensions of higher-rate taxpayers are subsidised by the average. A higher-rate taxpayer only needs to contribute £600 to get £1000 into their pension pot when a basic-rate taxpayer needs to contribute £800. So we are paying to incentivise the rich when we should be incentivising the poor.

While we are at it, there is no reason why the national insurance system should continue as it is into the medium-term. The reason why national insurance is a fantastic idea is because insurance in general is a fantastic idea. Beveridge's insight was to provide for the masses what the markets had previously only applied to a few. But the system is not funded, and now needs modernising for a changed demographics and different working environment. The Mirrlees Review into the UK taxation system for the Institute of Fiscal Studies suggests, over time, integrating the income tax and national insurance systems. This can be done without anyone who has paid into the system losing their entitlement, and without the state relinquishing its responsibility to provide dignity to all in retirement. At present, those who have not made sufficient contributions over their life are topped up in retirement via pension credits. We should move to a system where a basic state pension is simply guaranteed at a certain age, just as income support is guaranteed in working life. But our wider aim should be to broaden and deepen the ability of individuals to build their own assets over time.

Insurance in general is the great unexplored area for benefit reform. As a recent Demos pamphlet argued, statutory sick pay kicks in for just long enough for someone to become long-term unemployed.[1] Greater use of the independent insurance sector – be it private, employee-owned or mutual – can lead to faster, targeted rehabilitation when people fall ill that is not only better for the individual but also their employer and the taxpayer, as well as expanding the ability of the insurance sector to create more jobs.

Our political forefathers in the mutual and co-operative movements sought to bring dignity to their members through greater control over their financial futures, as the Blue Labour thesis reminds us. The irony is that collectivising that insight to a national state-based pension model will not – at least in the 21st century – be sufficiently flexible either for an individual to feel that they truly 'own' it, or for it to deliver high enough financial returns. This was implicit in the Turner Commission report on pensions when they recommended extending a funded model of saving to more people. Our responsibility, while ensuring that a backstop always exists for those who need it, is to extend the funded model still further to as many people as possible.

Childcare, education and old age

Similar principles can be applied to other financial stresspoints in a person's life. Take the costs of childcare. Provision is made for childcare vouchers, but there is no financial mechanism to increase their value over time even though they are a valued commodity. Perhaps we need tax-exempt childcare saving schemes, which can be contributed to from birth by family, friends and government, where the deposits grow on the financial markets, but where the value can only be realised in the form of childcare vouchers. That would help make it clear in all young people's minds that society sees the value of keeping incomes up in families with young children. Unused vouchers in later life could be passed around the family or donated to those who need them.

A similar principle – allowing the value of a voucher to grow over time – can be applied in other areas. The child trust fund could be reinvented as an education and training account. This could be a retail saving product that starts at birth and lasts for life, where deposits could be made by the government, family, the individual and their employer (including bequests made through wills). The value could only be extracted in the form of training credits for higher or further education from accredited providers. On death, any unused credits could be bequeathed to family members or transferred to a collective central pot to distribute to the training accounts of young people in underachieving schools. This central pot could also be topped up by charities, companies, and indeed government if it saw fit. There might be a similar case to create a market in nursing home vouchers.

Housing

For many people in Britain, their home is their greatest financial asset. Whether it is wise in economic terms or not, it is fundamental to British culture that home ownership is a desirable thing. The problem is that it has become far more expensive, leading to greater asset inequality between the generations and poverty traps that create disincentives to work for those who rely on housing benefit. As Ed Miliband said in his 'promise of Britain' speech: we need to "stop the inexorable rise in the average age for home ownership".

So where Thatcher gave people the right to buy their council homes, Thatcher's children need now to ensure smoother and fairer transitions from housing dependency into asset ownership. It should be normal for every public sector housing tenant to be able to acquire as much of their property as they are able to as their circumstances improve. Similarly it should be far more common for lower-paid workers to be able to move into a house that they only partly own, albeit mortgaged, with the balance being owned by some kind of public body or social enterprise until such time as they can purchase more.

Housing benefit costs the taxpayer too much and benefits the landlords more than the tenants. As a first step, all landlords should be licensed and required to raise the quality of their homes to the 'decent homes standard' required by the Department for Communities and Local Government. If they are unable to do so, they should hand over long-term management of their property to a social letting agency in return for a fixed, lower rate of return. The social letting agency could raise funds on the open market, allocate on the basis of need and have a more supportive community-based relationship with their tenants. Ken Livingstone was right to raise the possibility of rent-capping for other landlords; this could also be an option in other high-rent areas outside London: a sure-fire way to bring prices down.

In the medium-term, the only real solution to the inequalities that come from disparity in housing prices across the country – again drawing on the Mirrlees conclusions – is a property taxation system that is genuinely progressive. This would be a political minefield and a consensual case would need to be built for it – and the effects on social tenants would need to be clearly thought through (perhaps council and social letting agency tenants could be exempt). But ultimately it is the only way to shift economic activity from the south-east to other regions, which in itself is a requirement for a more diverse – and so more resilient – economy.

Conclusion

In a speech to the Resolution Foundation, Ed Miliband made it clear that his vision of Britain was one where the aspirations of families "beyond the bottom line" were clearly recognised. People are rightly concerned about making ends meet today, but the role of government is to look to the future. We can do that by making time work for policy and by going with the grain of human nature. The state can shape markets to help build assets and resources for us and our families over our lives, so they are there when we need them, and build emotional and financial resilience regardless of the circumstances of birth. The institutions that will do this do not need necessarily to be private, although they might be, but what they will share is the desire to use the power of markets to distribute assets more widely. That is the territory that Ed Miliband should be in.

Endnotes

1 *Of Mutual Benefit*, by Max Wind-Cowie, Demos 2011.