

Welfare Reform: Learning From American Mistakes?

Report of a seminar organised by LSE Housing and CASE. Kindly
Sponsored by Broomleigh Housing Association

William Julius Wilson, Geoff Mulgan, John Hills and David Piachaud

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Centre for Analysis of Social Exclusion

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Telephone: UK+171 955 6679
Fax: UK+171 242 2357
Email: j.dickson@lse.ac.uk
Web site: <http://sticerd.lse.ac.uk/case.htm>

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Geoff Mulgan
John Hills
David Piachaud

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BACKGROUND

This report summarises presentations and discussion at a seminar, organised by LSE Housing and CASE, which took place at the London School of Economics on 7th July 1998. The event was chaired by Professor Howard Glennerster (LSE and Chairman of STICERD), and the speakers were Professor William Julius Wilson (Harvard University), Geoff Mulgan (Special Adviser, Downing Street Policy Unit), Professor John Hills (LSE and Director of CASE), and Professor David Piachaud (LSE).

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INTRODUCTION

Professor Howard Glennerster

Professor Wilson has had a very distinguished career in America as an academic at the University of Chicago and now at Harvard University. He is the author of two of the most influential books in social policy and has an outstanding academic record.

Professor Wilson plays an active role in the American policy debate, both by talking to community groups and leaders of the political right and left in America and by advising President Clinton on welfare and welfare reform. He mixes academic life with a very practical involvement at the bottom and the top of American society.

Professor Wilson has been in the Centre for the Analysis of Social Exclusion (CASE) at the LSE through July 1998. We hope that in the future we can work closely together on work that is of similar concern here and in America.

The Rights and Wrongs of American Welfare Reform

Professor William Julius Wilson (Harvard University)

American social welfare policy includes three tiers: -

1. The Top Tier

This is a set of universal programmes contingent on previous work. It is financed by taxes paid into reserve accounts, either by employees or their employers. These programmes include the Social Security Act that was signed into law by the Roosevelt administration in 1935. It provides: -

- a) Benefits for retired workers, their spouses and various dependants.
- b) The Unemployment Compensation Programme created as a part of the Social Security Act, to render temporary support to eligible unemployed workers.
- c) The Disability Insurance Programme introduced in 1956 to aid workers who become disabled and can no longer be gainfully employed.
- d) The Medicare Programme created by Congress in 1965 to provide health benefits for qualified elderly citizens.

2. The Second Tier

This is a set of means tested, income tested, public assistance programmes: -

- a) Aid to Families with Dependent Children (AFDC). This was originally created as a tiny programme attached to the Social Security Act during the Roosevelt administration and was called "Aid to Dependent Children". Following a series of Supreme Court cases in the 1960s, AFDC became an entitlement for any family that met the qualifications.
- b) Medicaid was introduced in 1965 as part of President Johnson's war on poverty, it was set up to provide health benefits to AFDC recipients. Medicaid was later expanded in the 1980s and again in 1997 to cover categories of poor non-welfare recipients.
- c) Supplemental Security Income (SSI) was created in 1972 as a means tested entitlement for disabled and elderly adults and disabled children.
- d) Food stamps for the poor were authorised in every state in 1964 by the Johnson administration and became an entitlement for cash welfare recipients in 1971. This was subsequently expanded into a full-blown entitlement programme serving about 26.5 million people by 1995.

3. The Third Tier

The third tier of American social welfare policy consists of a few hundred small means tested programmes (e.g. nutrition programmes for poor children, head start programmes, etc). These compete with each other for annual appropriations.

The four universal programmes in the top tier (social security, unemployment compensation, Medicare and disability insurance) are programmes directly connected to work, and financed by worker and employer taxes and accompanying trust funds. They have enjoyed enormous and consistent support from the American public. On the other hand, many programmes in tiers two and three (programmes for the economically disadvantaged) have been the target of heavy and mounting criticisms. These include forceful attacks from the conservatives, attacks that ultimately proved to be very successful in 1994 when the Republicans took over the US Congress and in 1995 and 1996 when the welfare reform debate in America crystallised.

In constructing their case for welfare reform, conservatives emphatically maintained that means tested welfare programmes such as AFDC extend benefits without obligations. In other words, they require nothing in return for the benefits received. Some AFDC programmes did have work for job training requirements, but they were weak and indifferently enforced and implemented. Conservatives drove home the point that the receipt of benefits without reciprocal obligations breeds dependency and therefore directly violates the public's trust. Moreover they argued that spending on means tested welfare programmes was out of hand, skyrocketing from less than \$1 billion in 1950 to over \$375 billion in 1995. Increased tax dollars, they argue, were used to support increased idleness.

These arguments resonated with many in the population during the first half of the 90s as economically anxious citizens struggled to overcome the effects of the 1990/1992 recession. Furthermore, the conservatives argued that as the number of people and spending on means tested welfare programmes climbed, the social problems they were designed to address either remained high or actually increased. For example they associated the rise of out of wedlock births with a rise of means-tested welfare programmes. They argued that the guarantee of not only tax benefits but also of Medicaid, food-stamps and in some cases subsidised housing, led young women to a reduced state of vigilance in ensuring that they did not become pregnant before marriage. In other words AFDC, as one person puts it, "violated the moral precept that

only married adults who can provide for the economic and emotional needs of their children should procreate”.

Republicans running for Office in 1994 have found that voters were responsive to such arguments. Encouraged that their critique of means tested welfare programmes resonated with voters prior to the congressional elections of 1994, Republicans stepped up and expanded the coverage of their campaign against means tested welfare. In particular, they pointed out that the means tested entitlement benefits had been extended to illegal immigrants despite the existence of immigration laws that restricted their access to public assistance. It was argued that the receipt of welfare benefits by illegal immigrants had become so great that by 1994 they were more likely than citizens to receive AFDC, supplemental security income, Medicaid and food stamps.

Conservatives also expressed concern about the definitions of disability applied to children who received Supplemental Security Income. As one put it, “children do not easily fit into the SSI Programme because the fundamental purpose of SSI is wage replacement, yet even healthy children don’t work for wages. So what is the basis for children’s eligibility?” Conservatives complained that children were being awarded \$5000 per year in cash plus Medicaid health insurance for no other reason than age inappropriate behaviour. They argued that this overly generous benefit to children justified the re-examination of the entire method by which children’s eligibility for SSI benefits was determined.

The conservative concerns about benefits without work obligations, increased spending for means tested welfare programmes, welfare out of wedlock births, the increased receipt of welfare by illegal immigrants, and the use of supplemental income for some children’s disabilities were all reflected in the provisions of the 1996 welfare reform bill as we shall soon see.

The conservatives were strongly critical of public assistance programmes and liberals were not particularly enamoured with them either. Indeed few liberal politician and policy analysts were willing to claim that major welfare reform was not needed. As one leading academic liberal put it “the last thing the progressive Democrats should feature in national politics are modifications on pitiful inadequate assistance programmes restricted to a fraction of the very poor. As state and local Governments implement welfare changes, progressives should look

for ways to integrate former welfare clients into the same programmes that address the needs of all low income workers and families”.

However, liberals’ comments on the inadequacies of the welfare system were in sharp contrast to those of the conservatives. First of all liberals emphasised that as unemployment in the general population rises, the probability of exiting welfare diminishes. Those who are least employable in terms of skills and training are least successful in avoiding welfare. The longer a mother remains off welfare the less likely it is she will return.

Where as conservatives complain about the overall growth in means tested public assistance, including the extension of Medicaid and food stamps for people who are not on public assistance, liberals pointed out that families receiving AFDC were far worse off in 1995 than were their counterparts 20 years earlier. Between 1975 and 1995 the benefit level had declined in every state, so much so that the average real value, that is payments adjusted for inflation, of AFDC nation-wide, had plummeted 37% during this period. Between July 1972 and 1992 the combined value of AFDC food stamps for a three person family with no countable income dropped 26% on average from \$874 in July 1972 to \$649 in 1992.

Liberals pointed out that in nearly every state the full monthly AFDC benefit was not sufficient to cover the cost of what the US Department of Housing and Urban Development considered to be ‘decent safe and sanitary housing of a modest nature’. Liberals argued therefore, that it is not the attractiveness of welfare or lack of a work ethic that causes mothers to return or to remain on welfare. Not only do they prefer work to welfare, but permanent welfare receipt is an anathema to them.

Research by liberal scholars highlighted the fact that many welfare recipients attempted to leave welfare for employment but that they were unable to stay off welfare because doing so was not economically feasible, despite the declining real value of AFDC. They noted that welfare recipients frequently found jobs as bar tenders, waitresses, car despatches and baby sitters, jobs that paid about \$5 an hour and lacked health benefits. But these mothers felt that in order to make ends meet, including covering health care and child care costs, transportation to and from work and the purchasing of better clothing for work, they needed a job that paid about \$8 or \$9 an hour and provided health benefits. (This study was published prior to the 1997 legislation that extended health care cover to non-welfare recipients through

the expansion of Medicaid). With these additional expenses, the study reported that the average low income working mother would have to spend \$317 a month more than her welfare counterparts to maintain the same minimal standard of living. Given the economic realities it is not surprising that many who are working in these low waged jobs decide to rely on a return to welfare.

In response to the conservative claim that there is a direct causal connection between the level of welfare benefits and the likelihood that a young woman will bare a child outside of marriage, the liberals point out that scientific evidence offers little support for the claim. Research examining the association between the generosity of welfare benefits and out of wedlock child bearing and teen pregnancy indicates that there is no evidence to suggest that welfare is a major factor in the rise of child bearing outside marriage.

For liberal scholars and public policy makers the means tested welfare system is inadequate. It should be reformed; not so much because it breeds dependency, reinforces the lack of work ethic and increases out of wedlock births, but because it traps people in non-work environments that are ultimately not conducive to healthy pro-social development for their children. Thus, instead of helping to integrate the recipients into the broader economic and social life of mainstream society, the means tested public assistance programmes tend to stigmatise and separate them.

Accordingly liberals maintain that effort should be made to facilitate the transition from welfare to work for two main reasons.

1. Welfare recipients prefer work over welfare and would readily accept jobs that will not result in their slipping deeper into poverty.
2. Not working has certain debilitating affects on individuals and on family life over time and children are worse off if they are widely exposed to an environment where few or no people work.

Welfare reform therefore should not be undertaken in isolation. It should be tied to efforts to create jobs for the disadvantaged. Welfare reform should also be conjoined with programmes to establish universal health insurance, so that public aid assistance recipients who want to 'go out there and get a job', as one welfare mother put it, do not face the dilemma that she posed, "I don't like being on public aid right now, but without a medical card, what do I do when by kid gets sick".

Accordingly, liberal advocates of this approach, which involved the assumption that welfare mothers prefer work over the receipt of public assistance enthusiastically supported proposals at that time that were designed to make work pay. They supported these proposals principally through the expansion of the earned income tax credit, the wage subsidy for the poor, the creation of universal health insurance, the development of childcare programmes and the establishment of child support provisions to ensure contributions from absent parents. All of these subsidies have benefits designed to make work pay. They were originally incorporated into original proposals discussed by President Clinton and his advisors in 1993. Welfare reform, was thus part of a more comprehensive agenda of social reform. It was argued that to ease the transition from welfare to work, it is not only necessary to help local governments create public sector jobs when private sector jobs are lacking and to turn welfare offices into transitional centres for training and job placement. It is also important to have in place universal health insurance to make any kind of welfare programme viable.

President Clinton's welfare reform proposal initially did include a feature strongly emphasised by conservatives and a growing number of liberals that a time limit be imposed on welfare receipt. In the original Clinton proposal a welfare recipient would be required to undergo training and job placement and then accept jobs in the private sector. If private sector jobs are not available at that time then a number of public sector jobs would have to be created. The point to be emphasised is that when the welfare recipient reached the time limit they would be guaranteed a job in the original Clinton proposals. Clinton's comprehensive vision of welfare reform in 1993 excited liberals, including myself. It was fully consistent with the view that steps be taken to integrate welfare recipients into the broader society. The bill that Clinton ultimately signed, however, did not reflect the comprehensive vision.

The bill that he ultimately signed, called Temporary Assistance for Needy Families (TANF) was largely drafted by republicans who had captured the House and Senate in the 1994 Congressional elections. They had the vote in Congress to push through legislation on welfare reform that embodied their narrow vision and concerns about means tested welfare programmes. As a major part of TANF the Republicans introduced a four-part proposal to replace AFDC.

1. They eliminated the individual entitlement to cash welfare.
2. They imposed a five-year time limit to ensure that the ending of entitlement to AFDC was not a meaningless gesture.

3. They required that those still on AFDC participate in a work programme popularly known as workfare, with the following stipulation:
 - a) A tight definition of work which excludes educational activities.
 - b) A standard of participation that specifically indicates the proportion of the states' caseload that must be involved in work programmes.
 - c) Sanctions on states if guidelines are not met, as well as on individuals who refuse to participate in the work programme.
4. In order to control spending, and reduced the power and size of the federal government they created the Block Grant (to shift the major responsibility for conducting welfare programmes from the federal level to state and local levels). The Block Grant provided states with a fixed amount of funding for cash assistance and welfare to work programmes.

It should also be noted that whereas liberals wanted a guaranteed public sector job of last resort for welfare recipients who could not find work in the private sector, conservatives strongly objected to government run job programmes. Why? Simply because, they believed such programmes would not only be ineffective and inefficient, but that they would contribute considerably to the growth of government. The conservative agenda called for less not more government.

Thus the Final Bill did not include a provision for public job creation. However, states could use federal funds from the Block Grants to create such jobs if they so desired. Although the Final Bill did not include options to convert Medicaid and food stamps to a Block Grant, it did include deep cuts in the food-stamp programme of nearly \$28 billion. Also the final bill permitted states to exempt 20% of their caseload from the five-year time limit to enable the adult recipients with the most serious work handicaps to continue receiving benefits. To offset criticisms that their initial childcare proposals were woefully inadequate, as well as to increase by-products and support for the Final Bill, the Republicans significantly increased the original amount they had stipulated for childcare from \$1 billion to \$5 billion. Republicans also included a number of provisions in the final bill designed to reduce out of wedlock births among welfare recipients. Under the tenant Block Grant structure, states are given considerable flexibility to try to control out of wedlock births including capping families size and limiting cash benefits for teen mothers, policies that would have been

difficult or impossible to create under AFDC. Republicans tightened eligibility for the receipt of supplemental income funds for child disability.

Finally the Bill signed by Clinton 1996 included severe restrictions on legal immigrants' receipt of welfare. However, it was argued in public forums that legal immigrants pay taxes just like citizens and that many legal immigrants had served in the armed services. President Clinton was able to persuade the Republicans to reconsider their positions. In the 'Balance the Budget Act' of 1997, about \$13 billion in welfare benefits were restored to legal immigrants who were already receiving public assistance when the bill was signed, as well as to those who were in the United States when the legislation was signed and who afterwards became disabled. However, a provision that stipulates a 5-year ban on public assistance for all legal immigrants who entered the country after August 22nd 1996 remains in the bill.

When we talk about the rights and wrongs of American welfare reform I want to state quite emphatically that Clinton's original proposal, the proposal outlined in 1993 and reflected in a comprehensive vision of welfare reform, was the right way to initiate change. Unfortunately with the approaching Presidential election, Clinton followed the advice of some of his closest advisers and allowed political expediency to influence his decision to sign the Republican bill. I believe this bill in the long run will have very negative consequences for disadvantaged people.

Let me conclude by outlining some of my concerns:

1. In July 1996 the Urban Institute published a study showing that the welfare bill approved by the House of Representatives would move 1.1 million children (2.6 million individuals overall) into poverty. It was estimated that most of the children who would become poor are in working families pushed into poverty by the cuts in food stamps. Moreover large numbers of families already poor would become poorer. The provision of the House Bill, from which the Urban Institute analysis was based, was changed only slightly in the final welfare reform legislation.
2. According to the Congressional Budget Office, by the year 2000 some 315,000 disabled low-income children, who would have qualified under the previous law, will be denied supplemental security income funds because of the bill's more stringent eligibility rules. A National Academy of Social Insurance panel conducted a study of a children's SSI

programme in 1996 and concluded that “while eligibility criteria need to be strengthened, allegations of widespread inappropriate allowances are not substantiated and sharp cuts in current roles are not warranted”.

3. In new welfare legislation, States receive fixed levels of resources for income support and work programmes based on the amounts they spent on those programmes in 1994, without regard to subsequent changes in their level of need. The legislation does provide some additional contingency funds if need increases. However, estimates based on previous experience reveal that if a recession were to occur within the next few years, the contingency funds would only cover about one third of the additional expenditure that the various states would need.
4. The new welfare law has generated a much greater need for work opportunities. High jobless urban and rural areas will experience difficulty in placing long term jobless individuals in private sector jobs. This problem will become severe if the economy turns sour. Indeed if the economic recovery period were to end sooner rather than later, the country will be woefully ill prepared to create work opportunity for welfare recipients and other low skilled workers and many jobless ghetto areas and depressed rural areas. These areas will therefore have to rely upon job creation strategies in the public and private non-profit sectors. A mainly private sector initiative will not be sufficient to generate enough jobs to accommodate the large oversupply of low skilled individuals. Since the legislation excluded the provision for guaranteed public sector jobs, the country could face a real crisis if the economic recovery period were to end at the time the welfare recipients reached their time limit for the receipt of welfare in significant numbers.

The prolonged economic recovery has allowed President Clinton to brag about the striking results of the welfare reform legislation. Clinton noted that when he took office in 1992, 14 million people or 5.5% of the population were on welfare. Today there are fewer than 9 million or 3.3% of the population the lowest since 1969. We should know however, that states can avoid some of the work requirements caused by reducing their caseloads. A provision in the Bill known as caseload reduction credit reduces the state of work participation requirements if its caseload falls before the 1995 level. This provision offers states a perverse incentive to shrink their caseloads by changing or tightening eligibility rules.

It should also be noted that the welfare population includes three types: One group use welfare for short periods of time and never returns. A middle group cycles on and off for some short periods and others for longer periods but not for five continuous years. And a third but quite small group stays on for long periods of time. Recipients in the first two groups tend to have work experience. They get laid off from work or lose a job, go on welfare for a brief period of time and leave when they find employment. These two groups respond well to a strong economic recovery and are finding jobs in this tight labour market. However, the third group includes those with little or no working experience. Preliminary research in Boston suggests that they are experiencing difficulty in finding employment even in this tight labour market.

The question we need to ask ourselves is: What will happen to all of these groups when the economy turns sour, when the welfare recipients reach the time limit and flood a pool already filled with jobless workers? This is a situation that Clinton and other politicians are not prepared to face.

QUESTIONS AND DISCUSSION

- Q.** The American jobs machine has generated about 15 million jobs in the last few years, but the majority of those appear to be in low wage jobs. To what extent do you think that the problems America is facing at the moment are actually caused primarily by the generation of large numbers of low waged jobs rather than jobs which are paying decent wages?
- A.** The growth of insecure jobs and low waged jobs, has contributed to the growing gap between the haves and have nots in the States. The gap between income and inequality is widening each year. Employers in the States are the envy of employers round the world, because they can create these jobs. The States has had a prolonged tight labour market economic recovery but workers are afraid to demand higher wages. The economic recovery period has lasted for more than eight years and yet wages have not increased significantly. Why? Because there is worker anxiety and weak trade unions. Workers are afraid that if they press for wages they will loose their job to a person in a Third World country who will work for a fraction of their salaries.

I have been trying to get the disadvantaged groups in America to recognise that they have a lot of things in common. There is so much emphasis on racial division that people loose sight of the fact that they have a lot in common. They are all struggling to make ends meet. They need to form multi-ethnic, multi-racial coalitions to address these problems. They will not be able to address them as long as they keep emphasising things that separate them - the racial divisions. I am encouraged to say that there is a proliferation of multiethnic, multiracial, grass root movements at the local level designed to address some of these issues and I hope that it becomes a national movement.

- Q.** Will you address the fact that in the United States more than 90% of parents on welfare are single mothers. In addition to the fact that they are discriminated against in the labour market and likely to earn very low wages, they have to pay for day care. Their families are poorer, worse off and more miserable. The federal welfare plan pays childcare for only one year. Catholic charity agencies all over America, are seeing the sad results of successful welfare reform. This is in addition to the stresses involved in being single parents who have to work full-time and raise their children. No one in America questions

whether work alone is the answer to welfare reform or whether single parents are entitled to additional assistance besides help in finding jobs.

- A.** Families are poor, worse off and more miserable today because of this welfare reform legislation, particularly those who have been forced off the welfare rolls by the increased sanctions. A number of states have been able to reduce their welfare rolls by tightening eligibility requirements. States have become more stringent, more rigid in the way that they review these applications in anticipation of people reaching the time limit. A lot of single mothers, welfare people, poor people, are trapped in low waged jobs.

The question is: when we talk about the importance of work do we want to just simply stop there or do we want to make work pay? And how do we make work pay? You move people out of poverty. They still take these low waged jobs, but you do certain things to help them. You increase the minimum wage, you expand the earned Income Tax Credit, you provide adequate food stamps, you provide adequate childcare, you provide national health insurance. You do all these things so that people move out of poverty and can lead decent lives. This is what the original welfare proposal that Clinton introduced in 1992, was designed to cover.

Single mothers have special problems. They relate to inadequate childcare, a problem that has to be revisited if we are going to force single mothers to take work. You mentioned that there is money for just one year. There is currently a group of congress people who have been mobilised and are talking about the need to introduce legislation to address this particular problem.

- Q.** Sexual behaviour has changed all over the western world. How do you conceptually link this social behaviour with economic causes? Women have become economically more independent, hence there is a higher rate of lone parenthood in Europe. How can you explain the difference?

Secondly please could you explain the extent to which social exclusion affects the issue of race in America (at least 26 million people)? Are there largely non-white recipients? How much of this is the control of black reproduction in births on behalf of the

Republicans? How much is it the financial control of the poor, which was an undercurrent of the Thatcher regime here in the 80s?

- A. You raise the question about the link between social behaviour and economic activity. The conservatives make a connection between illegitimate births and welfare receipts. That is their claim. The research does not support the kind of connection that they make.

The second point about social exclusion with respect to blacks. The discussion about the association between welfare reform and race would form a lecture in itself. When a lot of people think of welfare recipients they think of young black mothers with a lot of children. They are outraged. A minority of welfare recipients are black (about 39% of AFDC recipients), but they are disproportionately represented, they represent a minority of all welfare recipients.

When a lot of people think of welfare recipients, they think of young black mothers with a lot of children and they are outraged. Even though a minority of welfare recipients are black (about 39% of AFDC recipients are black), they are disproportionately represented and they represent a minority of all welfare recipients.

Also, black welfare recipients, and other welfare recipients, have fewer children than non-welfare recipients. This factor is ignored. A number of slogans, subtle slogans, are used to reinforce the popular belief that a lot of welfare recipients are black.

- Q. Could you say a little more about the relationship between these original Clinton 1992 proposals and the upper tier? It was implied that this was popularly supported and very much in the public eye. Were the 1992 proposals enough? What were the limitations of the Clinton proposal? The proposals really looked at the modernisation of social insurance, and how the social security act of 1935, disability insurance and Medicare might be regenerated or revitalised. This relates to the British discussion about welfare reform at the moment.
- A. This question associates Clinton's initial proposal for welfare reform with the first tier of universal type programmes. It is an interesting question. Clinton included welfare reform

as part of a more comprehensive social policy and as part of a concern with stimulating job growth in the economy.

However, Clinton wanted to put welfare reform on the back burner in 1992, because it was important to get national health insurance in place first (a universal National Health Insurance Programme). Clinton realised that it would be difficult for welfare recipients to stay off welfare if they did not have health insurance. Unfortunately some senators pressured Clinton to put welfare on the front burner. This meant that he was trying to deal with welfare reform and trying to generate support for national health insurance at the same time. His national health insurance programme collapsed and a number of other problems developed. Meanwhile the republicans were gaining control, strength and power, they pushed through the welfare reform legislation.

This initial welfare reform legislation was seen as a comprehensive social policy that included not only national health insurance for the poor, but comprehensive for all Americans - another universal programme. Some programmes were more targeted, i.e. the Earned Income Tax Credit, minimum wage, etc., but basically these programmes were not restricted to those on welfare, they were available to all the poor.

In addition, Clinton talked about job creation, namely the creation of federal sector jobs (public sector jobs), not only for welfare recipients but for all poor people. Thus Clinton's comprehensive proposal included parts of what is associated with tier one universal programmes as well as tier two. Had Clinton had the power to introduce and implement programmes that were integrated in this way, he would have drawn widespread support across ethnic and racial groups and across class lines, support even from a lot of middle income people.

Q. You mentioned grants, new federalism and the problem with decentralisation of social security or welfare assistance to the states per se. Do you see the problem being the size of the budgets that are given to the individual states? Do you think that there is a role for individual problem solutions at a state or a community level, rather than at a federal level?

A. Decentralisation is a useful way to address some of these problems. New federalism is a system where the federal bureaucracy's budget is reduced and monies are provided to

states to enable them to run their own programmes. Is this the way to go? Connected to that, if you are going to provide monies to these states, is that sufficient?

Two things: firstly, I don't like new federalism because I have seen what states can do. Some states do the right thing other states do not. The variation in state support for AFDC is extreme. Secondly, some states are very reactionary, they sit back and do nothing. Other, progressive states like Wisconsin and New York, have a number of progressive programmes. There is extreme variation in state responses to the needs of the disadvantaged.

Q. How does welfare reform in the US address the problems of the long-term unemployed? They have experience, but no academic qualification or training. Is there any research or investigation into how they can contribute?

A. Research on the long-term unemployed is fairly consistent: -

- a.** Employers do not want to hire the long-term unemployed, because they do not have 'job readiness skills' and have not been socialised into the norms of the work place. Thus the long-term unemployed experience difficulty in finding jobs, particularly when they have to compete with experienced workers.
- b.** There have been several studies that examine what happens to long-term jobless people when they enter employment. The low waged, dead end, menial jobs have large turnover rates, but these are built in, anyone would leave. These jobs are so miserable, so deadening, so dehumanising that people come in and go out very quickly.
- c.** Long-term jobless people who move into jobs that provide advancement stay in those jobs; there is a much higher participation rate. These jobs do not necessarily require a lot of skill, but they do provide advancement and fringe benefits (e.g. paid vacations, etc).
- d.** There is some convincing research that people with little work experience do initially have difficulty adjusting to the work place. For example, in Chicago, inner city kids that had no previous work experience were excited about the creation of subsidised

jobs for them. However, they arrived at work late, they could not understand why the employer was angry, they were socialised into a non-work, casual environment. They soon learned the work rules, in the second and subsequent weeks they arrived on time. To stop employers giving up on the kids, the programme staff warned employers that initially they might experience some problems.

Q. Do you think that a more holistic pattern of service delivery would significantly improve the support given to disadvantaged people? Instead there is a series of bureaucracies that do not seem to be connected and have created problems for the people they were originally intended to help. Alongside childcare, healthcare provision etc., would you add transport, debt counselling and help for substance misuse - a service that looks at the total needs of the individual? Do you think that could make a significant difference? You referred to multiracial coalitions of the poor. What difference could they make to prevent the export of jobs to third world countries?

A. A holistic pattern of service delivery covering the total needs of the individual, instead of piecemeal separate service delivery strategies, has been tried. There have been some very successful innovations at community level. Institutions have been formed to deliver integrated, multiple services, that address many of the individuals needs at the same time. At the moment this is confined to certain areas of the country, certain neighbourhoods. I would like this to become a national innovation.

Q. The 1993 reforms, as they were originally conceived, are very similar to the reforms being introduced by the new Labour government at the moment. One thing that is characteristic of these kinds of reforms (e.g. making work pay) is that they can be expensive in the short run, because you bring into the welfare system a lot of people who are already in work and are not receiving benefits. To what extent was the failure of welfare reform to do with Republicans not realising this? Or was it reactionary attitudes? Or was it a failure to find imaginative ways of paying for these sorts of reforms?

A. The Republicans did confuse the growth of means tested welfare reform programmes (from \$1 billion in 1950 to over \$300 billion by 1995) with increases due to the expansion of food stamp and Medicaid coverage, rather than AFDC.

This reflects their own values about what is important in American society. In America when people say that something is too expensive, it suggests that it is low on their priority list. During this period, President Clinton signed a \$265 billion Defence Bill that included \$10 billion more than he asked for. He complained that it was inflated but it was high on the priority list. If its high on the priority list you do not raise a question about whether it is too expensive or not, you pay for it. The only way the 'have nots' are going to get things higher on the priority list is to organise across ethnic and racial lines. When I talk about multiethnic coalitions, I am not simply talking about coalitions of the poor, 80% of the American population represent the 'have nots' - those that experience declining real incomes.

A lot of middle income families are struggling to make ends meet. If they could organise themselves, they could put things on the agenda that concern them, including jobs going overseas. Now how can they address that in this global economy where corporate leaders have the flexibility to do what they like? It would be interesting to compare the way America deals with some of the problems of industry relocation with the way that, for example, Japan does. There are ways in which you can encourage businesses to stay in a given area, positive ways and negative ways. Negative ways would be to tax these corporations. Positive ways would be through public forums, trying to encourage them to have civic pride. But they have to be addressed and they are not going to be addressed unless the American people make it a major public issue that politicians have to confront. It is not going to become a major public issue until they are organised.

The activities of the Federal Reserve Board are concerning. Until recently every time there was a tight labour market the Federal Reserve Board increased interest rates to control inflation. This drove up unemployment. They are more concerned about inflation than joblessness, the interests of those on Wall Street than the average worker. This will continue until workers organise themselves and insist that the President appoints (and Congress approves) members to the Federal Reserve Board who pay as much attention to the problem of joblessness as they do inflation.

Is UK Welfare Reform a Copycat Exercise?

Geoff Mulgan (Special Adviser, Downing Street Policy Unit)

I want to talk about welfare in its widest sense, the sense that the designers of the welfare state had in mind. For them welfare was not just about benefit and insurance systems. It concerned the fully range of policies to improve the welfare of the people, and above all, the welfare of the people in the greatest need.

I will begin by addressing the title given. Some commentators have assumed that because the terminology of British welfare reform is similar to American terminology a simple import of ideas is taking place. In fact although there have been some important lessons learnt from the US, particularly around models of service delivery, things are different, fundamentally different. These are just a few of the key differences with the US.

1. Welfare debates in the US focus primarily on one client group – lone parents, whereas in the UK 19m people receive welfare in one form or another and the main beneficiaries of the New Deal, the first and biggest plank of welfare reform, are young men and women who wouldn't be getting any welfare at all in the US.
2. In the US it is generally assumed that welfare is a bad thing. In the UK despite 18 years of Conservative government most people support welfare in principle; their concern is to modernise and improve it, not to abolish it.
3. The British welfare system operates through a set of national institutions (e.g. the employment service, benefit agency, etc.) which do not have precise parallels in the United States, where much more is run at the state level.
4. In the US a core part of the welfare argument concerns access to health services which in the UK are universally available.
5. Race issues dominate welfare debates in the US, whether explicitly or implicitly, in ways that have little parallel in the UK.

The truth is that there has been just as much influence on New Labour's policies from Europe as from the US. What we are doing on welfare to work and jobs is closely in line with the policies that have been developed over many years in the Netherlands, Denmark and Sweden.

So if the UK is not engaged in a wholesale import of American ideas, what is informing the welfare reform debate? Our debate is taking place in the wake of the failure of a very profound project of attempted welfare reform. The project of the New Right and the neo liberals was to roll back the frontiers of the state, to deregulate society, and to move away ultimately from any notion of the state having responsibility for the public's welfare.

This project failed by almost all the tests it set itself: spending went up rather than down; poverty worsened rather than improved; wealth did not trickle down and an enterprise culture did not replace dependency. But the most important failures were strategic ones. In many countries, this one included, far from cutting public spending and therefore enabling governments to cut taxes, almost every government of the right in practice simply shifted the balance of public spending away from productive areas (e.g. health and education), into essentially remedial areas (e.g. social security for the unemployed, law and order). As a result they did not deliver on their promise to the middle class that welfare reform would result in more money in their pockets. Moreover, in the UK and US and many other countries the effect of reforms was such a degree of social fragmentation, division and rising crime, that a consensus took shape that something had to be done.

If this is the political background, why are we having this discussion now and what is the issue that lies behind welfare reform? Welfare does not need to be reformed primarily because it is unaffordable, although at £100 billion a year it is undoubtedly very expensive. Given reasonable economic growth there is no reason why continuing growth in welfare cannot be afforded. Nor is the problem primarily a moral one, or as some argue, a problem of the moral failings of part of society. Again there is no evidence that unemployed people have any greater moral failings than people in work.

The reason why there is a problem is that despite having a substantially funded welfare system, and despite having a redistributive tax system, poverty has remained bad and in many cases has worsened. This is the best measure of the failure of welfare system and this more than anything is why there is a need for reform.

If the impulse for reform comes from the manifest failure of welfare, it also has to be said that the environment has changed radically. Much of the welfare system was designed for an economy in which men were the predominant breadwinners working full-time with relatively

short periods of unemployment, and relatively short retirements. Today many more women are working. Much unemployment has become long-term and structural as much as cyclical. Longevity means that many people face 30 or 40 years of inactivity after they leave work.

These changes in the work place have had a dramatic impact on poverty and social exclusion. Behind them lies a very fundamental shift in the nature of the economy that has made work disappear from key sectors, key types of occupational group and key areas in the UK. Between 1951 and 1981, 45% of inner city jobs disappeared. Since then, many more of the types of jobs available, particularly for less skilled men and particularly in some urban areas, simply disappeared as our economy changed from one based on production, reasonably large units and reasonable security, to an economy based much more on services, knowledge and face to face services, with a combination of higher returns to education at the top and less stable employment at the bottom.

Although the initial causes of unemployment and exclusion were clearly economic, over a generation or two the effects have been far more than economic. They have become interwoven with weakened family structures, changes of culture, the rise of the drugs economy and a set of more intangible problems around low aspirations, low motivations, and fatalism, which are not so amenable to the kinds of policy tool which might have worked in the past.

The disappearance of work matters so much because more than anything in our society, work has become the key source of status, as well as the key source of income. It is the thing our society values. When you lose it, and when a whole community loses it, many other things are lost at the same time, including self-respect, the capacity to plan, to organise time, to get things done.

The Government is now trying to pick up the pieces after several decades of worsening exclusion. In what follows I want to briefly run through 7 key themes which underpin how government is approaching this massive challenge.

1. Work

The first priority is to help people into work. Work is the key not only to securing better incomes but also to confidence and self-respect. It underpins the legitimacy of the whole

system of welfare, and if there is one thing guaranteed to marginalise an individual, family or a community, it is being cut off from work. Our problem in policy terms is that the UK has a badly functioning labour market, if by a labour market you mean a system for matching the demand for labour and the supply of labour. The source, in the educational system, churns out not only 8-10% of people with not a single qualification after their many years of school, but also many others who are scarcely prepared for work. The labour market consistently fails to match jobs and those looking for jobs, partly because of lack of skills, but also because of lack of childcare, disincentives to work built into the benefits system, and lack of transport. The mismatch is also geographical. 15-20 years ago there were large differences between the British regions in terms of unemployment and vacancies. Today the biggest differences are within regions and cities, and in most major cities there are now neighbourhoods with high unemployment rates within a mile or two of city centres with large numbers of vacancies.

To tackle these problems one of the first acts of this government was to levy a substantial tax on the utilities in order to pay for the new deal for the long-term unemployed. This is probably the most ambitious programme ever introduced into this country to deal with some of these problems of a malfunctioning labour market. It rolled out nationally two months ago. It is still too early to make a judgement on precisely how it is working because most of the people who entered it are still in the gateway period, receiving advice, training, and help with job search. But it is clear that the programme has tapped a huge source of commitment from the people going through it themselves, from business – with nearly 20,000 firms signed up – and from the staff themselves.

This is the beginning of a process. Over time the policies will be continually improved and adapted. Moreover they will be extended in very radical ways with the introduction of employment zones and personal job accounts so that different funding streams and benefits can be used more flexibly to help people back into work.

Does this all need to be supplemented by direct job creation? There are two reasons for caution. Firstly, there are surprisingly few areas in Britain where the problem is really a shortage of jobs per se, rather than the failure of the system to link supply and demand. Even in parts of London or Glasgow where unemployment is very high, jobs are available within 20 or 30 minutes travel time. The problems have far more to do with disincentives, costs of travel and childcare than they are to do with the supply of jobs itself. Secondly, in the New

Deal the unemployed themselves have, for the first time, been given a choice about the options they take. There is a very strong preference for working in real jobs, which most people think of as real jobs, in the private sector. The past experience, where often the employment service directed people into ‘make work’ programmes, has left quite a bitter taste in the mouth. Whatever we do now, has to be on the basis of choice. These are all reasons for being sceptical about the virtues of direct job creation. That said, however, more support is going into intermediate labour market organisations that provide a stepping stone into mainstream jobs and some public sector organisations – notably schools – are themselves making use of the New Deal to create jobs.

2. Making Work Pay

The second priority builds on the first. Having got people into jobs, whether those people are the young unemployed, lone parents, people with disabilities, the older unemployed, we need to ensure that work pays and that people are not stuck indefinitely in low paid, low status jobs. The UK, like the US, has a rather segmented labour market in which it is easy, particularly for women, to get stuck right at the bottom for the whole of their working life. Encouraging greater mobility requires a range of different policy tools: the minimum wage to establish a floor for incomes; the WFTC to remove disincentives to work; training to improve the value of people’s labour.

3. Security For Those Who Can Not Work

Although we are placing work and the reintroduction of a work culture at the core of welfare reform, there are clearly large numbers of people for whom that is not a prospect, not only pensioners but people with disabilities and some parents. Many steps have been taken, for example around income support for pensioners, and around disability, to ensure that there is real security of income for people who cannot work.

4. Areas

Poverty and exclusion can no longer be considered without thinking about geography. Given the huge differences between neighbourhoods, programmes have had to be much more carefully directed at the areas of greatest need. The SRB, the New Deal for Communities and the various zones are all ways of doing this. They are also ways of encouraging more flexibility and innovation in the poorest areas, and of passing control back downwards to communities themselves.

5. Long Term Prevention

It is always more sensible to try to prevent poverty and exclusion rather than picking up the pieces later on. In most of poor Britain there are substantial flows of money through welfare to alleviate poverty, but rarely anything like so much funding for investment in future prosperity. Restoring the balance through better investment in training and education is part of the answer. It is also well known that what is done early in your life has a profound impact on your life chances later in life. This is why a lot of effort in the last year has been focused on the early years, particularly through the design of services for children under five and indeed under three.

6. Special Needs and Specialised Groups.

Finally, there are a range of problems that have to be dealt with separately. Rough sleeping is a good example. At first glance it appears to be a problem of available homes, hostel beds or entitlements. Yet in fact it goes much deeper: about a quarter to a third of people sleeping rough had been in local authority care, about half had been in prison, or on remand, a third had serious mental illness problems and a third had problems with drugs. As a result the problems of rough sleeping have to be handled in an integrated way, dealing with the upstream causes - and the responsibilities of local authorities, the army and prisons – while also improving the more remedial measures to help people off the streets and into jobs and homes.

7. How Institutions Work

This last point focuses attention on a larger issue. Improving the effectiveness of government policy in relation to poverty and exclusion requires changes in how government works. In the past there has been far too little co-ordination or ‘joining up’ of the different parts of government. There has been too much top-down direction and not enough involvement from people on the ground. There has been too much emphasis on cure rather than prevention. For all of these reasons new approaches are being taken, including the establishment of new types of unit – like the Social Exclusion Unit, new pooled budgets such as Surestart and the New Deal for Communities, and new emphases on prevention, as in the case of crime.

In addition new principles are being brought to bear on policy design. One is that the evidence on what works should be taken seriously. This has rarely happened in the past. A

survey was done here about a year ago on the many welfare-to-work type policies of the previous government. It demonstrated that only 9 out of 42 policies had any evaluation at all and even those evaluations had been thin. This is bound to lead to bad policy and wastage of money. It makes far more sense to build in rigorous evaluation to all major areas of policy.

A related point is that if there is a promising solution, it is better not to test it out on the whole country at once as has often been done in the past (for example with welfare reforms, the poll-tax or the national curriculum). It is wiser to test ideas out in a few areas through pilots and pathfinders and to find out what works and how models can be improved.

In practice many of these initiatives need to be tailored to local conditions. Without community ownership and engagement, even the best designed policies can fail. It also improves the quality of decision making to involve those on the receiving end of policy in its design. For example this is being done in the New Deal, with constant feedback from young people themselves. In the SEU work on estates young children who live on estates have been involved in researching – and making recommendations.

These are just a few examples of a new approach. It is designed to improve the quality of policymaking, to encourage greater pluralism, more relevance, and better performance. It is designed to overcome the often self-fulfilling pessimism that has done such damage in the past.

Poverty and social exclusion are not forces of nature. They can be tackled, just as in earlier periods the problems of public health and unemployment were solved against the odds. For the first time in a generation a government is attempting to remake its welfare system, in this broadest sense. Not everything will work. Not every policy will remain the same. But the principles and the direction of change are clear, and the reforms are already beginning to make a tangible difference. These principles and policies have drawn on experience elsewhere, in the US, Europe, and in Australia and New Zealand, but they are also very much grounded in British experience, and ultimately they have to work with the grain of British society, the British economy and the institutions we have inherited.

QUESTIONS AND DISCUSSION

- Q.** You suggest that the real problem with jobs is a malfunctioning labour market. I would suggest to you that we in this country, perhaps in most of the western world, no longer believe in full employment. The concept of NAIRU has been very widely accepted and in the last Budget Red Book it suggests that if the level of NAIRU would be between 6 and 7% unemployment this would be acceptable.
- A.** I'm not a Government spokesman and I can't speak for the Government, so within those constraints let me attempt to answer the questions you have put.

The first was about NAIRU and full employment as a goal. I wouldn't dream especially in this hallowed institution of making any comment whatsoever about the virtues, vices or presence or otherwise of NAIRU and the level it is set at. All I would say is that there is rather substantial difference between what you think is a suitable rate of unemployment per se and what you think is either a desirable or sustainable rate of long-term unemployment.

The first policy priority for this Government has been to make an inroad on longer-term unemployment, younger people unemployed over six months, older people unemployed over 2 years, 18 months and a year. This in no way has any effect on NAIRU and that whole set of issues. If policy is properly defined, it is clearly right in policy terms (because there is so much evidence that the longer people are cut off from the labour market, the longer they are in unemployment). Not only does their own capacity to get back diminish but so does their self-esteem and so does all sorts of other attributes. In terms of the core policy goals, this Government is quite clearly committed to bringing long-term unemployment down to as close to zero as possible. Whether you call that full employment is another matter and I can't get into that argument. But I think if we could as a nation bring down long-term unemployment near to zero this would have a phenomenally big affect on communities all over the country. That seems to me a viable first goal and perhaps once we have reached that, we can think about whether bringing the overall rate down is feasible or not.

- Q.** Working Families Tax Credit could in some way be seen as a subsidisation of low pay. This seems rather at odds with your idea that work offers a positive trajectory for people through training programmes that tend to be expensive.
- A.** It is true that on its own, tax credits do not accelerate people's careers or their mobility within particular jobs. Equally it does enable many people to work who would not otherwise work. Work experience and being within large organisations, does open them up to lots of career opportunities that would otherwise have been unavailable. In the long run, the key will be having a background of training, life long learning infrastructures that are of high quality and are accessible. The fact that training schemes in the past have not delivered very good returns or been very effective does not mean that we should give up on them altogether. It is difficult to see an alternative that can supply people with real opportunities and real mobility. I acknowledge that we are a long way from having a learning system, a training system that actually meets the needs of most of the public.
- Q.** I am sceptical about the idea of mis-functioning labour markets. Surely it is not a mis-functioning labour market, but mis-functioning housing markets. If you break down social problems in England they correspond with the division between owner occupied houses and social housing. The problems are in the social housing. This could simply be because the poor live in social housing, but that does not account for the effects of housing benefit. People without qualifications who live in owner occupied housing get jobs, those who live in social housing are much slower to get jobs. You have got to tackle the problem of the housing benefit trap.
- A.** I would question whether all social exclusion is as concentrated in social housing, as you imply. However, because of the way housing benefit system works, housing is a key part of the problem of getting back to work. This is a topic that is being looked at fairly intensely by the government.
- Q.** My point relates to social exclusion in relatively small areas neighbourhoods. In Northern Ireland there is a programme tackling areas of high social deprivation. They targeted small neighbourhoods to check that people who were entitled to welfare benefits were taking up their full entitlement. This is an interesting idea because recent governments

have been concerned to keep entitlement down. It seems to be very much in keeping with what you were talking about, local initiatives.

- A. This is the first government for a very long time to actually invest money in encouraging people to take up benefits they are entitled to, but are not taking up. We have targeted pensioners on income support, many were not claiming the income support they were entitled to, as a result some were living in abject poverty.

With regard to targeting wards, the government is looking at flows of public spending ward by ward in a number of areas. This has revealed just how great the variations are between wards. In the private sector, the more finely grained postcode level data is used, rather than geographical targeting of services. Also an understanding of clientele has been a very important advance in the last 10 years. We need the same in the public sector if we are going to get programmes to fit a very differentiated, unequal and uneven country.

The work that is being done on welfare reform has shown how thin and inadequate the data collected about the clientele is. Little is actually known about the people who are actually the recipients of welfare, about their characteristics, about their needs and about their wants. If we were actually trying to sell them a business service, far more would have been invested in understanding them. Perhaps the lack of research is because they are seen as part of the problem, rather than people who need a service as a matter of right.

- Q. There was a tremendous cut in capital investment in social housing and an equally tremendous ballooning of the housing benefit bill. A lot of the housing benefit bill goes into private sector housing benefit, particularly in London where private sector rents are extremely high. This means that the recipients, people living in private sector housing, can not afford to get jobs. How do you anticipate the government will cut the housing benefit bill in the private sector, without increasing the rough sleeper problem?
- A. There was a big shift from housing and education into crime and social security and also a shift in what was left in housing from capital and building into housing benefit. This government has long been committed to releasing capital receipts for rectifying the investment side.

Q. You said that one of the points of difference between the United Kingdom and the United States was that race did not figure in the same way. Could you elaborate on that, both to say what you meant by it and if you are suggesting that it does figure in some way? Also how does that relate to your seven areas?

A. In the US quite clearly race has been the dominant issue for 200 years. In the UK it has a wholly different history, although some of the problems are similar in terms of discrimination and what is happening in the labour market. In the US many people who are attacking welfare are effectively making a subliminal racial point. That is not the case in the UK, where there is now a great deal of differentiation. For example: -

- There are rapidly growing diversions between different racial groups in terms of what is happening to them in education and jobs.
- Some parts of the white working class are worse off than ethnic minorities, they are stuck in terms of issues around unemployment, social housing and crime.
- The way gender intersects with race is very complex and again changing very quickly in this country.

For all these reasons the UK is different from the US. That said, with the proportion of particularly black young men out of work running at 50-60% (higher in some areas), it is clear that something fundamental is not working well. This is part of the symptom of a labour market not functioning well.

Q. Most organisations are being encouraged to look at local labour initiatives. However people do not walk to work, they still need to take public transport. It would seem that the increasing cost of public transport is a disincentive to people actually wanting to go out to work. Is this being considered as a factor within the whole context of welfare reform?

A. For a surprisingly large number of people it is actually the lack of reasonable transport which makes it hard not just to get to a job, but to a job interview or get to somewhere where people might tell them about a job. This is being looked at in relation to welfare reform and is a large strand of the new deal in some areas, they ensure that there is either cheap transport provided by local bus and train companies, special minibuses or minicabs,

to take people to where the jobs are. These linkages take some time to get right but they have got to be part of the picture.

What Welfare? What Reform?

Professor John Hills

(Director of the Centre for the Analysis of Social Exclusion, LSE)

My title divides into two parts. The first part of that is the question ‘what welfare’? I want to start by discussing one way in which the UK has been borrowing from the US, in a way which seems to me to be unfortunate. That is the way in which we are now using the word ‘welfare’. As Professor Wilson described, in the US context, welfare has generally meant the second tier of his programmes that he described, means-tested support for the poorest. Programmes like AFDC (now TANF) food stamps and so on, programmes which are stigmatised. Since 1994, at least ‘welfare reform’ has meant changing the rules of AFDC, introducing time limits, the block grant, and so on. Until recently in Britain we would have meant something much wider by ‘welfare’. We would have meant the whole of the welfare state, stretching across health and education as well as the whole of social security including the kind of social insurance programmes which Geoff mentioned. So state pensions would be included in that as well as the means-tested safety net.

One problem, one danger, in borrowing US phrases like ‘welfare to work’ or ‘welfare reform’ in the sense of changing rules and support for those out of work, is the risk of dissociating the safety net part of the welfare state from the rest of it, losing sight both of the way in which the whole system fits together, and the way in which virtually everyone is touched by the welfare state at some point in their lives. Also losing the ways in which some programmes are widely supported in the ways that Professor Wilson described.

I think this reached for me a very dangerous point in February this year when the Prime Minister launched what were described as the ‘welfare reform road-shows’. He described, at one point, a system under which a minority are trapped on benefits while the majority have to pay for them. Now that seems to me to be unfortunately just plain wrong. First of all, movement on and off benefit itself means that a much wider proportion of the population even in a short time period are affected by benefits before you even start adding in longer term receipts of things like pensions or child benefit, and before you extend it to include health and education. When you do that you have a picture which is very different from a trapped 20% receiving benefits from the welfare state while a resentful 80% pay the bill.

Now I am glad to say, and also I think reinforced by much of what Geoff has been saying, that by the time the Prime Minister wrote the forward to the Welfare Reform Green Paper which came out just after the Budget, he was referring much more widely to, “those of us who believe that the welfare state is not just about cash benefits but is also about services like health and education”. And he added towards the end of that forward, “that the welfare state is not just about a few benefits paid to the most needy”. Amen to that. A crucial difference between the European context and the US context is the existence of the underpinning which is given to all by the universal health care systems and services like education.

The second part of what I am going to say is on the question of ‘what reform?’ in the sense of what reforms are we seeing, what picture can we now see a little more than a year after the new Government took office. I think the first and most obvious point when looking at this is that the new Government is very intent on strong continuity with its predecessor in terms of public spending, including public spending on the welfare state.

This isn’t anything new. By the end of their time in office, financial year 1996/97, the Conservatives were spending a shade over 25% of national income on the welfare state as a whole – virtually the same proportion as was being spent by a Labour government 20 years before in 1976/77. By sticking to the spending plans which had been set down by Kenneth Clarke before the Conservatives lost office, the Labour Party had succeeded by the latest financial year for which we have figures, 1997/98, in cutting that total by 0.8% of national income. It is here that New Labour can be seen as most clearly different from old Labour, and where it is perhaps most clearly open to the accusation from the Left of not being very different from the Conservatives.

But even in this area such a conclusion does have to be qualified. First the biggest initiative of the new Government is the New Deal. This involves additional spending, the total of which adds up to about 0.65% of one year’s national income spread over the 5 years from 1997/98. That spending is financed by new taxation, albeit taxation collected from a rather unpopular group of businesses rather directly from individuals. Second, both of the Budgets we have seen so far have actually increased spending above previous plans for health and education, using corners of the budget to do that. More generally the government would argue, I’m sure, that the effects of changing priorities within its total of over £300 billion will be far greater than the effects of simply adding a billion or two to the total. This may be so,

but I think judgement on this must await the results of the Comprehensive Spending Review next week.

The second thing that is clear, reviewing what has happened over the last year, and from some of what we have heard this afternoon, is that if you are looking for a linking theme across Labour's welfare policies in its first year, it can be found in the promotion of work and of the work ethic. Tony Blair's famous three priorities of 'education, education and education', flow explicitly from an analysis that both low productivity and growing inequality have roots in a workforce that is ill-equipped for the contemporary global economy. The major new programme, the New Deal, is about moving people from social security benefits into work, as were many of the measures in the 1998 Budget. New resources are available for training, subsidies for employers, and so on. And for the young there is "no fifth option" of continued life on benefits after six months – a major change in the principles of the British social security safety net. Another borrowing from the US is the new Working Families Tax Credit, partly based on the US model, designed to increase differentials between incomes in and out of work to reinforce the message that work pays. Not only is it more generous than the Family Credit it replaces, but it is intended to be paid – as long as people don't opt out of this – by employers through the wage packet, with the intended psychological effect of linking work to the money people receive. As the government put it, by linking support more closely to the pay packet, it will demonstrate the rewards of work as well as removing the stigma that is sometimes associated with claiming benefit. One might also add the presentational advantage that part of the cost of the new tax credit will appear in the public accounts as lower taxation rather than as higher public spending, an advantage that was not lost on the Clinton government either.

It was notable that in the seven points which Geoff ended with in terms of summarising the Government's approach, the first of those points was work. In the most comprehensive view of the Government's views on its ideas of welfare reform published yet, the Green Paper that came out just before Easter, the first of its eight principles underlying reform is that the new welfare state should help and encourage people of working age to work where they are capable of doing so. The relevant chapter is entitled "the importance of work", and it starts with the statement that the Government's aim is to rebuild the welfare state around work. As people will know, the early Fabians went from Britain, probably from here if I've got the right ones, to the USSR and came back with the message that they "had seen the future and it

works". Having been reading the Government's documents, I think I can say I have seen the future and it's work.

These people like work (and not in the way that Mark Twain liked it as a spectator sport). The central slogan of the Green Paper in Tony Blair's introduction is that "we want to rebuild the system around work and security: work for those who can; security for those who cannot". Not, note, security for all, which might have been the slogan for the post-war system established by Beveridge. It is hard to imagine that this is an accidental slip given that this is the central message flagged up in different places in the statement. We can begin to see here a tension emerging within the policies of government. On the one hand, it would like to reinforce the connection between work and welfare. On the other hand, it doesn't want to offer too easy a safety net even for those who are currently working.

I would like to finish by saying something about what we are seeing in the new Government's attitudes towards the growth of inequality which we saw in the 1980s. This is an area of explicit government aims. Interviewed in 1996, Tony Blair stated that he believed in greater equality: "If the next Labour government does not raise the living standards of the poorest by the end of its term in office, it will have failed". The government can actually point to quite an impressive list of measures that it is taking or is planning to take which are intended to reduce inequality and reduce relative poverty. Many of these are similar to the kinds of measures that one might describe as 'Clinton 1', the 1993 version rather than the 1996 version. This includes the priority to education, the introduction of a national minimum wage, the New Deal, the Working Families Tax Credit, the increase that is coming in the universal Child Benefit, higher allowances for younger children in Income Support, reforms coming in National Insurance Contributions, the commitment to higher take up of benefits amongst the poorest pensioners, a commitment to a "decent standard of living of all pensioners in the future", the measures in particular areas like zones that we have heard about, and the measures coming from the Social Exclusion Unit.

So in brief if you look at what we have seen so far over the first year of the new Government, there are three things that stand out:

- First, the efforts which have been made to shed the tax and spend image of the previous Labour oppositions. But there are some items of additional spending, and the existing total may change significantly as a result of the Spending Review.
- Second, there is this very strong emphasis on promoting work.
- Third, the new government is more clearly committed to reducing inequality than its predecessor and many of its measures are explicitly aimed at that. On the other hand the scale of some of those remains unclear, and there is clearly a tension between that objective and what we are likely to see about the level of social security benefits (given that one expects social security to be a loser within the current spending review).

In emphasising its break both from old Labour and from Thatcherism the new government has encouraged talk that it is following a “third way”. I am not allowed to sit on an LSE platform and in any way throw doubt on the merits of the third way, but I think there are some areas to be filled in within its definition. In the Green Paper we are told, “the welfare state now faces a choice of futures: a privatised future with the welfare state becoming a residual safety net; or the status quo but with more generous benefits; or the Government’s third way, promoting opportunity instead of dependence, with the welfare state providing for the mass of people but with new ways to fit the modern world”. Well this is all very well but a careful reading suggests that the Government has actually left its options very wide, without giving many clues as to exactly where the third way will take us beyond ruling out two polar extremes. What we will actually see as the story unfolds is likely to be a series of rather pragmatic responses to the varied problems of different parts of the welfare state.

When this welfare reform exercise started we were told in the media hype that Frank Field had been sent off with his colleagues to “think the unthinkable” on welfare reform. A year on, looking at what is emerging in terms of pragmatic workable ideas, the welfare reform we are seeing is “unthinkable” in much the same way (but with a lisp) that the Titanic was unsinkable, and I think that is to be welcomed.

Changing perspectives on the Welfare State

Professor David Piachaud (LSE)

US Lessons

Drawing lessons from the USA about welfare reform might be likened to seeking guidance from David Beckham on stress management. In the USA social exclusion is actively practised: there are nearly 40 million below the official poverty level and nearly two million people in jail - five times the rate of Britain. US reforms have been concentrated largely on the benefits going to the poorest; the largest components of social security - old age provision, disability insurance - have grown at much the same pace as in Britain. Overall, transfer payments are much the same proportion of disposable personal income in the USA as the UK. Even the number of disabled people receiving benefits has tripled since 1970. It is not clear then that the United States over the last few years represents an obvious inspiration for welfare reform. Yet there are I think a variety of other lessons to be learned from the USA.

In the 1960s the lessons to be learned from the USA were about racial discrimination and the economy. James Tobin the economist on whom Professor Wilson has drawn from in his work, summed it up as follows: -

“By far the most powerful factor determining the economic status of Negroes is the overall state of the US economy. A vigorously expanding economy with a steadily tight labour market will rapidly raise the position of the Negro both absolutely and relatively. Favoured by such a climate the host of specific measures to eliminate discrimination, improve education and training, provide housing and strengthen the family can yield substantial additional results. In a less beneficent economic climate where jobs are short rather than men, the wars against racial inequality and poverty will be uphill battles and some highly touted weapons may turn out to be dangerously futile... To harness [the forces of the market place] to the cause of the American Negro is entirely possible. It requires simply that the federal government dedicate its fiscal and monetary policies more wholeheartedly and singlemindedly to achieving and maintaining genuinely full employment.” (Tobin 1965)

The President in 1968, in his Economic Report, recommended substantial increases in social security benefits as a means of tackling poverty. He stated that since the passage of the Economic Opportunity Act, which established the nation's commitment to poverty, the number of poor Americans had been reduced by one third. Social security, he said, is one of the oldest and best social programmes. Robert Walker recently wrote that social security was the finest achievement of the 20th century. While the Prime Minister acclaimed the National Health Service on its fiftieth birthday, the social security system has yet to get similar praise.

In the US, as far as welfare is concerned, a harsh neo-liberal perspective seems to be dominant. In part this reflects covert racism, in part this reflects what Galbraith calls "*the culture of contentment*". The arguments used now are the same as those used in the 19th century about cutting back on the Poor Law. Now, as then, academics and commentators aided these arguments. Galbraith, wrote of the social sanctioning of personal enrichment and the justification for limiting progressive taxation on the basis of the Laffer curve – purporting to show that if you cut taxes on the rich there would be more revenue. Although as Galbraith says: "*It is not clear that anyone with sober mentality took Professor Laffer's curve and conclusions seriously*".

Galbraith continued: "*there still remained the problem of the poor. Their claims, if heard, could result in a continued and costly role for the state. They could seem to justify some reallocation of income from the rich and the comfortable to the impoverished. Here too an appropriate doctrine was required. And in the mid 1980s, one can now say predictably, the requisite doctrine became available. In a book that went substantially beyond the Laffer curve in argument and empirical support, Dr Charles A Murray provided a nearly perfect description... its essence was that the poor are impoverished and kept in poverty by the public measures, particularly the welfare payments, that are meant to rescue them from their plight. The help becomes a substitute for the personal initiative and effort that would bring true escape*".

Galbraith adds, that "*David Stockman, the Director of the Office of Management and Budget and by far the most visible economic figure in the Reagan administration, said that the newly espoused doctrines were simply a serviceable cover story; the actual and deeper purpose was to lower taxes on the affluent...the purpose of the economic ideas... was to grace the desired*

action; to the latter they were subordinate. Their service to contentment had its own quite unambiguous force". (Galbraith 1992)

Of Murray one can say that those who deal in half-truths are only half-human. I like to think that the hottest place in hell is reserved not for those who do down the disadvantaged but those who rationalise doing them down on the grounds that it is doing them good. I have not, as yet, got any empirical evidence on that.

Are we really taking a new perspective in Britain? The Green Paper on welfare reform is clearly a beginning not an end, but it brings together many of the changes that have been made. It sets out 8 principles for reform, among them that the new welfare state should help and encourage people of working age to work where they are capable of doing so, that public and private sectors should work in partnership, that the new welfare state should provide public services of high quality, and that the system should support families and children as well as tackling the scourge of child poverty.

These are fine sounding principles, but deeply meaningless. One can judge their value by one simple test, if you replace the "should" in each proposition by "should not" and ask if anyone at all would then adhere to the proposition, I think not. What this suggests is a set of principals so non-discriminating that virtually any future social security policy could be said to conform to them. Yet there are very real differences of principle in the possible futures for social security, futures that have different gainers and losers, have very different risks and involve difficult and highly political choices. The principles proposed do not offer any guidance through such choices. On the other hand there are proposals for "success measures" which are a bold and promising initiative to measure and test performance on a number of dimensions; these more than the principles may contribute to evaluating future progress.

Here I concentrate on the two core values, that of work and security around which the Prime Minister emphasised the system is to be rebuilt.

Work

Even though everything these days is "new" what is being said about work is not remotely new. For example, Beveridge (1942) wrote that: "*income security, which is all that can be*

given by social insurance, is so inadequate a provision of human happiness that to put it forward by itself as the sole or principal measure of reconstruction hardly seems worth doing. It should be accompanied by an announced determination to use the powers of the State to whatever extent may prove necessary to ensure for all, not indeed absolute continuity of work, but a reasonable chance of productive employment". (Beveridge 1942; Para 440)

The focus of the welfare to work policies is on young people and on the long-term unemployed; with a quarter of a million 18-24 year olds still unemployed, and half a million of all ages unemployed over six months, these must be a major cause for concern. But we need to understand what the causes are. For Charles Murray, in his visits to Birkenhead and Easterhouse, the problem was that there was a "lost generation"; when older people were growing up they could see themselves in their father's job, but not these young men. Yet if one looks at what has actually happened in Birkenhead and Easterhouse it is not the case that this supposedly lost generation now has higher unemployment than previous generations. As unemployment has come down generally, so it has for those who were supposedly part of this lost generation. What has also happened is that a large number of people in this young cohort have left Birkenhead and Easterhouse, they are lost in the sense that they have left their home communities, rather than remain passively to face a life of chronic unemployment which is what Murray portrays. These young men have actively moved to improve their economic prospects; whether they had 'got on their bikes' is not recorded.

What has determined the number of young and long-term unemployed in the past has been the level of unemployment generally. As the overall number unemployed doubled between 1990 and 1993, long-term unemployment also doubled. Since 1993 as overall unemployment has come down so too has youth and long-term unemployment. Employers may be reluctant to hire the long-term unemployed, but, if there are no others available, then employers will turn to them. It is important to remember what Tobin said about tumbling inequality and poverty: that in a recessionary climate, highly touted weapons may turn out to be dangerously futile. There does seem to be a rather urgent need for joined up thinking in Britain between macroeconomics and supply side micro policies.

The second aspect of work I would like to mention is unpaid work, perhaps in total worth as much as the whole of measured Gross National Product, of which childcare represents about half. Beveridge's world in which mothers would be at home rearing children to serve the

British Empire is clearly long gone; most mothers are now in paid employment. There are some small steps with the Working Families Tax Credit to assist the low paid with child minding costs. This is welcome progress. But by means testing this support it is stretching out the poverty trap to embrace larger numbers. And by only supporting registered childminders, there is no recognition that many one-earner couples are worse off than two-earner couples and it cannot be safely assumed that child minders are always better for children than parental care. The Childcare Credit is a small step, but like the steps of many small children it may end up collapsing in a heap because of its inconsistencies and inadequacies. As yet there is no recognition of childcare costs to all families.

Security

Do American reforms offer any lessons concerning security?

It is very hard to see how the new time-limited Temporary Assistance for Needy Families is compatible with even something as basic as the UN Convention on the Rights of Children according to which children have the right to an adequate standard of living regardless of their circumstances. New rules in the USA are intended to deliberately cut off children from any right to benefit.

For millions of old and disabled people, security depends on the benefits they receive. The effect of the current policy of only upgrading social security benefits in line with prices, will result in 1½ million more people in poverty (under half average income levels) by the year 2002 (Piachaud 1998). Without a commitment that social security benefits should keep up with incomes generally, there will inevitably be more people in relative poverty.

Future policy is likely to emphasise public and private partnership. How far can this offer security? With past problems of pension mis-selling, with the unstable state of Stock Markets worldwide and with some provident funds in severe trouble, it may seem a surprising time to be pursuing a partnership with the private sector, but there is nothing wrong with partnership in principle. What matters is how much security it can provide and what regulation of contributions, investments, administration charges is necessary to achieve genuine security in old age. In future pension reforms such questions are going to be particularly critical.

Last, in terms of security, there is the security of government commitments. It is the insecurity of those that led the Minister for Welfare Reform, Frank Field (who has since 'resigned'), to be attracted by Friendly Societies and by funded pension schemes. On this we can draw an important lesson from the United States. There the main component of social security is a general social insurance pension scheme that is universal, compulsory, contributory, wage-related and moderately redistributive; it is not means tested and is indexed to wages up to retirement age and to prices thereafter. It costs the same proportion of GNP as the British pension scheme. It is everything you would expect neo-liberal free marketeers to oppose.

Yet what happens in the States? Alan Greenspan, the Chairman of the Federal Reserve Fund, chaired a bipartisan committee and concluded that congress should not alter the fundamental principles of the social security programme. It is a lesson in consensus. Maybe it works because, as PJ O'Rourke wrote, "*the old, the near old and those expecting to be old constitute a special interest group comprising 100% of the population*". Security ultimately depends on the security of the social and political commitment to security. It is sad and strange that when the USA and most of Europe maintain solid commitments to social insurance, in the UK we cannot build and sustain government commitments on pensions without messing them about every five or ten years.

Conclusion

For the future there need to be new perspectives on the welfare state. We need to prevent poverty, not merely alleviate it. We need to embrace the mutual responsibility of the unemployed to tackle training and work and of the government to make sure there are jobs. We need to recognise childcare work as fundamental to the economy and to equal opportunities for women. We need to achieve a realistic and secure partnership of public and private pensions. We need to recognise real choices, not win-win fantasies; it needs honesty about the hard choices and the price of security.

On many of these aspects there has been real progress from the New Labour Government – but not on all. The welfare state cannot be built on the sands of spin. It must rest on a rock of mutual trust and responsibility. There will be progress if the achievements of the welfare state

are consolidated and built upon, not if its foundations are undermined by neo-liberal nonsense.

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QUESTIONS AND DISCUSSION

Q. What lessons do you draw from our attempts to reform welfare?

A. Professor William Julius Wilson

With regard to the malfunctioning of the labour market, no-one suggested, as Gordon Brown did when we talked last week, that people do not take jobs because there is a disincentive to work in the British system. The reason they do not take these dead-end menial jobs is that, unlike in the United States, there are viable alternatives to dead-end low paying work, i.e. unemployment compensation. The new deal was introduced to address the problems of the transition from welfare to work for those in the 18-25 year old category. The workers who reject the jobs on offer may be just as miserable or depressed about being jobless and dependent on the state for income as the welfare mothers in the States. I mention welfare mothers because this is a comparison with the States and we tend to focus on the lone mother in our discussions of public assistance. With the exception of those welfare mothers who suffer from a lack of perceived self-efficacy due to the experience of non-work, they make more of an effort to try to take a menial job in the low waged sector than some of the white males here.

In the United States the unemployment rate declined by 4.3%, yet inflation did not rise because workers were reluctant to demand new wages due to job insecurity. The economist Paul Krugman of MIT suggested that one of the reasons we have a tight labour market and such low unemployment in the United States is not due so much to productivity as to anxiety; anxiety because they worry about down sizing, about losing their jobs to people in Third World nations who will work for a fraction of their salaries. They cannot rely on weak unions to prop them up. Despite the concentration of people in low waged jobs, they are working.

As for those who have comparable incomes, who are idle on welfare, no group of people in our studies were more depressed than welfare mothers. Certainly not the working mothers trapped in low waged jobs. They felt good about themselves. They were working. It seems to me that to address this is to address the problem of joblessness. Even if this means a concerted effort to get people to take low waged jobs. If this were done,

then steps would need to be taken to make the slogan ‘make work pay’ apply to these jobs.

When joblessness is allowed to rise to high levels, you create a situation for the demagogic mobilisation of racism like that we are now beginning to see in high jobless areas in Germany and France. If we are not able to move people into jobs that provide some career advancement, it would be better to encourage them to take low wage jobs and augment their wages with such policies as the minimum wage and EITC (Earned Income Tax Credit) rather than allow them to remain unemployed indefinitely.

Q. Does the UK want a high-wage economy or do we favour the low-wage with subsidies economy? Do you accept that there is a trade-off between a government that is trying to get people into work at all costs and the continental European model?

A. Geoff Mulgan

In almost all situations, it is better to be in work than not to be in work. Making work pay is primarily about removing the disincentives to work, i.e. through the Working Families Tax Credit, National Insurance and housing benefit, etc. All of these are key and necessary, though not sufficient conditions for making work pay. They are successful only if, in addition, you have the transport, childcare, training etc, because for most people it is not just a question of the mathematics of work paying that is the barrier, in practice the two have to be put together.

Charles Murray, as mentioned earlier, commented that young men no longer have the image of their fathers’ jobs in their minds. He got it almost precisely the wrong way round. In a lot of areas of Britain the problem is precisely that young men have the image of their fathers’ and grandfathers’ jobs in their minds. These were full-time manufacturing jobs which are not on offer and are not likely to be on offer. As long as they wait for those jobs to come around, they will never make the transition back into life, back into taking responsibility for themselves. To that extent our policy is fairly clear, getting people into work has to be the priority and then we need to address the ways of making work become a career, having upward mobility, having access to skills etc. The second cannot come without the first.

Q. The relation of the welfare state to the larger concept of citizenship is of concern. During the post war era, when the welfare state brought people in (it did not exclude them), it enriched the community and gave a sense of citizenship. Is there any danger of privatising citizenship or a sense of it, by linking it to work? The link to work is only for a portion of the population. Is there a danger of creating different understandings of citizenship for different people in society?

A. Geoff Mulgan

Part of the welfare debate is about revising and redefining the nature of citizenship, around a balance of rights and responsibilities, and the idea of reciprocity. This is partly because the debate has become divided between those who engage in decision making and politics and those who are just welfare recipients and are not engaging in decision making. If this project is successful it will have regenerated what citizenship is about and made it more meaningful. Your self-worth depends on what you contribute as well as what you take away. Some notions of citizenship which became defined solely in terms of entitlements and rights, have seriously devalued it.

Q. One of the features of post-war urban policy was the range of area based initiatives running from slum clearance, through to the urban programme, the Single Regeneration Budget and beyond. The net effect of all these policies has been marginal at best. What is going to be qualitatively new about the new analysis of area based deprivation? What strategies does New Labour think we should follow on this basis? What is qualitatively new about new area based initiatives?

A. Geoff Mulgan

Three bullet points: -

- Any area initiative has to tackle the structural causes, these are often outside the area.
- Area initiatives have to blend in with mainstream programmes
- Area initiatives have to be about power, how decision-making power is organised, rather than just being parachuted in by clever experts from outside.

Q. We need to recognise the moral worth, the social usefulness of a range of tasks rather than focus on paid work as a reliable constant when there is no evidence to suggest that that is the case. People on welfare are not necessarily idle, single mothers on welfare are

probably very busy with the unpaid work of parenting. How can the main task be to tackle the problem of joblessness, they are working? This suggests a problem with the status given to paid work and the status given to equally important, socially useful roles including parenting, caring for elderly or disabled people, etc. How can the idea that any work is better than no work solve poverty? You can be trapped in poverty in work as well as trapped in poverty out of work.

The challenge for public policy is to find a way to support the range of social functions, the combination of roles that people perform during their lives. That is the way to bring about both social cohesion and integration at a personal level.

A. Geoff Mulgan

I agree with every word you have said. The status of caring and parenting needs to be raised and its economic role recognised. There is an absurd possible endpoint of welfare reform, sometimes caricatured where every lone mother would be forced out to work, her children put into care. I don't think this would be progress. Having said that, almost every lone parent needs some way of keeping in touch with the labour market and the skills needed. On balance this is nearly always good for mental well-being and future prosperity. The fact that we have such a high proportion of lone mothers not taking part at all in the labour market, without the option of jobs and not getting access to the skills and education that they may need in the future, is a massive problem. I think, however, that it would be a ridiculous mistake to ignore the real importance and economic value of parenting.

A. Professor William Julius Wilson

The ideal situation is to reach a position where parenting is rewarded and people have work that offers them pride and respect and a decent income. That goal would increase the health and well-being of people as well as increase civic participation. I wish I could take you to Chicago's inner city neighbourhoods and let you talk to some of the welfare mothers who are not working and who are depressed. Then I would let you talk to some of the mothers who are in low waged jobs so you could see their attitude about themselves, about their ability as parents working with their kids.

Research on parenting and work revealed that working mothers were more effective parents than non-working mothers, because they were not as depressed. The social

outcomes of the kids were reflected in terms of school achievement, etc. We are in a sort of a transition period until we reach the ideal state. We can sit back here as progressors, liberals or academia and talk about what is ideal, but there is a reality out there that we have to address. It is better to move people into jobs and provide them with all the reinforcements that are necessary to get them out of poverty, than to sit back until we get that ideal state letting them hang indefinitely unemployed.

Q. The Working Family Tax Credit and the Earned Income Tax Credit are clearly copycat policies from the United States, although here it will be different because it will run through the PAYE system. How do you think we will evaluate this in 10 or 20 years time? More worryingly, does this mean that we are a market economy (both the States and Britain) where we have given up on the idea that the employer can pay a proper wage to support families for a growing proportion of workers? Very significant numbers of workers will have to get used to having two wage packets, not literally but metaphorically, one from the state and the other from the employer.

A. Professor John Hills

One of the things that we will remember the Working Families Tax Credit for is that it will float a large number of low waged workers off Housing Benefit, providing that their rents are not too high. It may be that the major reform of Housing Benefit we see is precisely that. If it's remembered for nothing else, the Working Families Tax Credit will also be remembered for the money it shifts to a group of low-income families. What we can't tell at the moment is something that is a bit intangible, which is rather difficult for economists who are used to trying to make fine calculations of whether people are better off in work or out of work, or whether people are five pence better off if they earn an extra pound or not. What we are dealing with is a climate of belief of how extremely complicated systems affect individuals.

What the Government is attempting to achieve is precisely that Professor Wilson was calling for in terms of "Clinton 1993". It is to get a message over that work pays. It is possible, and I'm sure Mr Brown has examples – where you can literally be worse off in work than out of work, but it is really quite difficult. But there is a very widespread belief that you may not be very much better off in work than out of work, and that it's a hassle and it's a risk to take work compared with what Alan Marsh once described as the "bleak

security of Income Support”. The Working Families Tax Credit is an attempt to change psychology and I’ve no idea whether that’s going to work, but if the climate of beliefs about what pays change, then we will look back on it as having been part of that jigsaw. If not, I think we will look back on it as a redistributive measure which after many years of Budgets which had redistributive measures in the other direction had a redistributive effect towards those with relatively low incomes.

Q. Is it possible to have a society that is both efficient and socially just? Do we have to pay a price for efficiency in terms of condition in the workplace as well as society as a whole?

A. Professor David Piachaud

Richard Titmuss made the point that much of social policy is merely picking up the pieces from the workings of the economy. If you treat the economy as something sacrosanct, that the preferences and the opinions of business men should guide all decisions, then it’s not surprising that one does not create social justice. You can’t try and have social objectives and say the economy is out there, we can’t touch anything to do with that because global markets don’t allow it. I think, in thinking about efficiency in social justice, it’s not enough just to think about social policy. It’s also important to think about the workings of economic policy and how they may be influenced further to promote social justice.

Geoff Mulgan

Welfare reform in its wider sense in the UK is going to be a long evolving process. There is a lot of initiative taking place, a lot of policy. With evaluation it will carry on changing. Mistakes will be made. Mistakes have been made already. (I think certainly in the area of policy towards lone parents things had to be put right to achieve the goal of expanding choice and opportunity.) The key is for governments to learn as quickly as possible and put things right.

To me it’s very striking if you look around the world at the major economies, how there is absolutely no correlation between their competitiveness, how well their economies are performing, and any measures of social cohesion. I think it’s a very dangerous and pernicious myth that there was somehow a trade-off between degrees of equality and cohesion and economic performance. What matters is how well you spend money, how

well your welfare systems work. But it's clearly quite possible for countries with far higher proportions of public spending and GDP than this one to do just as well and indeed much better in economic terms. So that sort of way of posing the question I think is one which we have to move away from and really see how efficiency and social justice and values can be realised rather than seeing them as in opposition to each other.

Professor William Julius Wilson

For a public-private partnership, the ideal state is to have high involvement and participation from the private sector, with its emphasis on efficiency, and high involvement of the public sector, with its emphasis on social justice.