

# Transforming welfare: new economics, New Labour and the new Tories

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We need a transformation in welfare provision, but even more important are measures to tackle the underlying causes of inequality.

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Over sixty years we have grown accustomed to benefits and services provided by the welfare state. All the while, the volume of provision has expanded exponentially, driven by a growing and ageing population, by rising public expectations, and in some cases, notably healthcare, by scientific advances and by supply driving up demand.

This expansion was possible because the economy continued to grow. Then came the collapse of global financial systems and a steep economic downturn from which ‘recovery’ is uncertain. Furthermore, there is persuasive evidence that continuing economic growth is undesirable, as Tim Jackson has ably demonstrated in *Prosperity without Growth*. Since it cannot be ‘decoupled’ from carbon emissions sufficiently and in time, continuing growth in the ‘developed’ world will make it impossible to avoid catastrophic damage to the environment. So it makes sense to plan for minimal growth or none at all.

In that case, what will become of the welfare state? As it stands it is

## Soundings

unsustainable. Deep cuts are already planned by the Labour government and by the Tories - and neither party has yet contemplated a future without growth. What should be saved and what thrown overboard? More important, how could and should the welfare system be restructured?

As we address these questions at nef (new economics foundation), we have found our selves rubbing shoulders with New Labour and the new Tories. Trying to envisage people living together and looking after each other in the twenty-first century, we have been exploring similar territory. Is there is a grand consensus emerging? Well, no. In this essay we explore the reasons why.

The New Economics vision starts from the premise that a welfare system that's fit for the future cannot rely solely on the market economy. Instead, it must value and nurture two other economies that have so far been largely overlooked. These are the natural economy, the resources of the planet on which all human life depends, and the 'core' economy, the human resources that comprise and sustain social life. The role of the state is to get all three economies - people, planet and markets - working together for sustainable social justice.

We can see the need for growth to promote well-being and improve the quality of people's lives. But there's no potential for growth in the natural economy, nor sufficient time and technology to switch to an entirely 'weightless' market economy. The only real potential lies in the human resources of the core economy. These are embedded in the everyday lives of every individual (time, wisdom, experience, energy, knowledge, skills), and in the relationships between them (love, empathy, watchfulness, care, reciprocity, teaching and learning). These assets and relationships can flourish and expand, or weaken and decline, depending on the circumstances and conditions in which they operate.

In favourable circumstances and conditions, where power and opportunity are fairly and equitably distributed, the core economy can grow, expanding the resources we deploy collectively for helping each other and meeting our respective needs. Scarce public funds can be supplemented with abundant and un-priced human assets.

How would such an approach work? One idea is to introduce co-production into the design and delivery of services. This goes well beyond the idea of 'citizen engagement' or 'service user involvement', to foster the principle of equal

## Transforming welfare

partnership. Participants are no longer divided into the categories of ‘providers’ or ‘users’. Instead, people pool different kinds of knowledge and skills, based on lived experience and professional learning, and work together to co-produce well-being. There are already many and varied examples of co-production, documented by nef and others.

Put simply, the idea is to make more and better use of people’s uncommodified time and capabilities, and to reduce dependence on money for buying the means of getting things done. But since people do not have equal access to resources or equal control over their time, everyone must have a fair chance to contribute in ways that enhance rather than diminish their lives.

This is central to the social transformation envisaged by nef in order to achieve a sustainable, no-growth, decarbonised economy - without which human society has little hope of a viable future.

We want to ‘grow the core economy’, not just to save money but because we are convinced it will get better results for the people involved. If you are just a passive recipient of the ministrations of others who are paid to look after you, you can lose control over what happens to you. If your voice is unheard and you feel unvalued, this undermines your physical and mental well-being. You get used to thinking others know more and are better placed to fix your problems - although what they do will not deliver the best outcomes, because your own wisdom and capabilities have not been brought into play. You also miss out on the chance to meet and work with others, enjoy their company and support, and make common cause with them.

For all these reasons, our vision favours supporting and strengthening the means by which people get together in their own neighbourhoods and gain more control over what happens in their lives. It favours more local decision-making and more activity generated from where people are - in families, households, neighbourhoods and communities. It is here that New Economics shares ground with New Labour’s communitarianism, and with the ‘compassionate conservatism’ of the New Tories.

### A shared critique

As they sought to repudiate Margaret Thatcher’s individualism, New Labour’s architects found communitarian ideas a refreshing alternative, as they were more

# Soundings

concerned with thinking about how people co-operate and reciprocate and have responsibility for each other. Tony Blair declared in 1999: ‘in place of an atomised, individualised, selfish society, people yearn for a society that heals itself, a politics that reduces division, intolerance, and inequality … Individuals realise their potential best through a strong community based on rights and responsibilities.’

A few years later, Jesse Norman wrote in *Compassionate Conservatism* of society as ‘a sprawling and intangible network of trust and reciprocity’, where people ‘relate to one another horizontally’. ‘They identify each other as equal members of the same civic whole, and do things for each other, at least partly, through mutual recognition, mutual respect and goodwill.’ Here the virtues of ‘society’ are set not only against the atomised individualism of the Thatcherite Tories, but also against the big-state politics that New Labour failed to diminish in government. ‘People relate to the state vertically’, observed Norman. ‘An invasive state disrupts the voluntary bonds between people, linking them upwards to the government rather than sideways to each other.’

The New Tories want to ‘roll back the state’ as Thatcher did, but have different ideas about what should occupy the space, which they argue should be not just individuals but society, and not just markets but community. As Ian Duncan Smith puts it: ‘Limited government is impossible without renewing the forms of behaviour and social structures that prevent poverty and create community.’ Phillip Blond, Cameron’s ‘red’ outrider, goes further: ‘The project of radical transformative conservatism is nothing less than the restoration and creation of human association, and the elevation of society and the people who work it to their proper central and sovereign station.’

So far we share a critique of the welfare system as it stands. Beyond this point, we diverge. Key areas of difference, which overlap and reinforce each other, relate to social justice and the economy, community and equality, imbalances of power and the role of the state.

## Social justice and economy

At nef we maintain that social justice must be sustainable, and define this as the fair and equitable distribution of social, environmental and economic resources between people, countries and generations. Social justice depends on how resources are shared - and that, in turn, depends on transforming the way the economy functions.

## Transforming welfare

The economy must sustain the environment and society, rather than grow at their expense.

By contrast, the communitarianism of New Labour's 'third way' offers a diagnosis of the social effects of neoliberalism without disturbing the neoliberal paradigm. It seeks to rebuild social capital in order to provide a more robust and flexible workforce for the market economy; but the structural and economic reasons for the depletion of social capital remain largely unexamined. This reflects Labour's unremitting commitment to a minimally regulated capitalist economy, which must 'recover' from the current crisis and continue to grow. Similarly, the Cameron Tories lament Britain's 'broken society' and seek to repair it by addressing society directly, attributing the problem to society itself (family breakdown, addictions), egged on by the multiple failings of the Labour government. There is no place in 'compassionate conservatism' for tackling the inherent tendencies of unregulated markets to concentrate wealth and power in the hands of the few, at the expense of the many.

In both cases there is a strong focus on initiatives - or, preferably, 'innovations' - to help poor and 'vulnerable' communities to become more 'resilient' in dealing with the problems that confront them. There is no focus at all (except very recently with regard to bankers' bonuses) on the part played by rich and powerful communities in rendering others poor, and benefiting from their continuing powerlessness. Indeed, talk of building up 'communities' invariably refers to groups of people who are disadvantaged and disempowered, not to policy-makers themselves or the circles in which they move. Communities are people with problems. And they are being urged, by Tories and Labour alike, to take more responsibility, to be more active and less dependent, to be more innovative in meeting their own needs. The comfortable communities at the higher end of the income scale are left in peace to consolidate their comforts and hand them on to their progeny.

At the 'red' end of the new Tory spectrum, Blond displays an appetite for breaking up large monopolies, recharging competition and fuelling local enterprise. A free society and a 'sovereign' people are to emerge from a free and 'moralised' market economy. But he appears uninterested in how the market economy itself produces inequality.

Who or what is to blame for the fact that poor and powerless 'communities' tend, as it were, to under-perform? For Labour it is a troubled society, marred by cycles of deprivation within 'excluded communities'; for compassionate conservatives, it

# Soundings

is ditto, plus an overbearing state. For the ‘red’ Tory faction, it is ditto, plus selfish individualism inherited from the permissive 1960s and feminist 1970s, plus a moral relativism born in the absence of a shared hierarchy of values.

For New Economics, it is decades of social and environmental pillage by a capitalist economy, with a centralised state that has played fast and loose with the environment, and tried to fix society to support the economy, rather than the other way around. Social and economic inequalities are at the heart of the matter, not social breakdown or ‘bowling alone’.

## Community and equality

Inequalities may serve the short-term interests of a capitalist economy, but they erode the capacity of society as a whole to succeed at all levels in the medium and longer term. And in the New Economics analysis, they are unethical, unjust and unsustainable. As Wilkinson and Pickett have famously argued in *The Spirit Level*, countries with greater income equality have better scores across the social gradient for life expectancy, mental health, educational achievement, violence and incarceration, trust and belonging. Promoting social and economic equality is a priority for nef and must go hand-in-hand with growing the core economy, because human resources are more likely flourish in conditions of greater equality.

There is also some evidence that countries with strong welfare systems and regulated economies are not only more equitable, but are also more resilient - in that they are better at adapting to external pressures such as climate change, and at planning for environmental sustainability. It is building equality to effect this larger resilience that matters, not just trying to make poor ‘communities’ resilient in hard times that are not of their making.

When New Labour abandoned ideology and embraced pragmatism in the 1990s, it let go of the social democratic commitment to social equality and the gradual redistribution of power and resources. The language of the ‘third way’ substituted inclusion for equality, exclusion for poverty and community for class. In government, New Labour made valiant but largely unsuccessful efforts to end child poverty and social exclusion by targeting interventions on poor communities. It has never found a persuasive narrative, let alone a coherent strategy, for redistributing resources or reducing inequalities. It has made some headway in

## Transforming welfare

tackling discrimination against specific categories (race, gender, disability, age, sexual orientation and religion or belief), but all the while income and wealth inequalities *within* these groups have stayed the same or widened.

A growing commitment to choice and ‘personalisation’ has tended to increase inequalities, because choices and atomised transactions are constrained and edited by social, economic and environmental factors that favour the better-off. In a similar vein, ‘individual behaviour change’ has become a matter of growing interest in a politics increasingly defined by consumerism. Rather than finding shared solutions to systemic causes of social injustice, Labour’s policy-makers search for psychodynamic stimuli to prod or ‘nudge’ people to move in certain directions - for example, to take more exercise, eat less fatty foods, recycle waste or turn down the central heating. This is the politics of the cattle-prod, backed up by cognitive behavioural therapy to promote ‘happiness’.

For the new Tories, equality (never a strong suit for the right) has not surfaced as a credible objective. Ian Duncan Smith has defined social justice as ‘helping people to help themselves; fairness; and ensuring the most vulnerable are not left behind’. Compassionate conservatism wants a ‘connected society’, based on freedom, decentralisation and accountability, and claims to be ‘egalitarian’ rather than paternalistic. But this approach involves placing ‘limited and qualified trust’ in elected politicians and ‘a pushing down of power and accountability away from the centre and towards the people’ - an empowerment of ‘wise crowds’. And this suggests a thin egalitarianism confined to politics, without touching the power of money.

The red Tories are avowedly populist rather than egalitarian. Launching his think tank ResPublica, Phillip Blond claims to speak for the ‘working class’ against a ‘middle class elite’ who formed the machinery of the welfare state ‘to deprive the poor of their irritating habit of autonomous organisation’. He wants ‘citizens’ groups’ to take over chunks of the state, through free association ‘sharing the practice and discernment of the common good’. The claims of individuals are absorbed into the group. But inequalities between individuals and groups are not addressed.

## Imbalances of power

This brings us to another key difference between New Economics and the politics of New Labour and the new Tories. If we are to build a sustainable future, there is

## Soundings

no cosy middle ground where we can all cuddle up. Powerful groups will defend their economic and political interests against those who are seeking change. Bankers and financiers, energy companies and carbon intensive manufacturers, retailers, advertisers and others who profit from high-rolling consumerism, plus the politicians and lobbyists whose nests they feather - these are all potentially heavy losers who will put up a big and dirty fight. Indeed they already are. Any strategy that does not address the need to confront these interest groups is bound to fail.

Since the 1990s and in contrast to the Thatcher era, both New Labour and the new Tories have appealed to the electorate by obscuring power conflicts and moving to the centre of the political spectrum. Labour's 'third way' tried to forge a consensus by supporting the economic status quo and finding a language that seemed new without frightening the horses. Likewise, compassionate conservatism is an attempt to reclaim the middle ground by invoking Oakeshott's view of civil society and extolling 'the tribal feeling of belonging, of being inside the circle and part of the group'. They want everyone to come inside their tent, just as Tony Blair did a decade earlier. Powerful interests - except those associated with New Labour in government - are tactfully ignored.

For the red Tories, Blond is pugnacious about the combined failings of Labour's statism and Thatcher's neoliberalism: 'markets conceived on a neo-liberal mode require the bureaucratic and authoritarian state'. However, he avoids confronting structural imbalances of power, inviting everyone into a consensual marketplace ruled by 'trust, sustainability and reciprocity'. He wants 'mass ownership and entrepreneurship' instead of mergers and monopolies, but clings to a view that good things for everyone will naturally emerge from free markets.

### The role of the state

From the New Economics perspective, there are some things that can only be achieved through democratically elected governments. The state has a crucial role to play in safeguarding the natural environment, in developing a sustainable economy that works for the benefit of future as well as current generations, and in promoting social justice and equal opportunity through the fair and equitable distribution of resources. It is only through the collective means of the state that individuals who are relatively powerless can be protected - as of right - against unfair treatment by

## Transforming welfare

those who are more powerful.

At the same time, we want to change the top-down, centralised, doing-to culture of the welfare state that has nurtured dependency rather than autonomy and agency. That doesn't mean doing away with public services but transforming the way they operate so that professionals and others can make common cause with the people who are supposed to benefit from them; where possible, they become facilitators and brokers of co-produced services, as equal partners, not just as providers. This way, we want to transform the welfare system and enable it to extend its reach and get better results, not by pouring in more public funds or introducing more market mechanisms, but by making more and better use of human resources. A localised state with a clear sense of purpose is crucial to making this happen.

The idea of localising power and decision-making has featured strongly in New Labour's intentions (New Deal for Communities, Healthy Communities Collaboratives, Neighbourhood Management Schemes, Local Strategic Partnerships, Local Area Agreements and so forth). But none of these has shifted power substantially or changed the doing-to culture of service provision. New Labour has augmented the state but has used it too little and too late to safeguard the environment, develop a sustainable economy or promote social justice and equal opportunity.

David Cameron calls for a 'big society' as an alternative to 'big government'. He wants 'the state to act as an instrument for helping to create a strong society', and 'a major redistribution of power' to 'create the opportunity for people to take responsibility'. The state's role, he says, is 'galvanising, catalysing, encouraging and agitating for community engagement and social renewal'. But his main aim is to find alternatives to state action - more social entrepreneurs, more community activists and more 'nudging' by government to get the masses to engage. Phillip Blond wants to shift power and budgets from the public realm to citizens' groups, breaking down the 'monolithic state' into an 'associative state' where citizens take over and run their own services.

All this is not about shared responsibility, or equal partnership, or mutual exchange, but replacement, even obliteration. Public employees are to chivvy the poor into taking over their jobs in order to exercise responsibility for their own poverty and its consequences. Ideas about redistributing economic resources or promoting equality don't get a look-in. The new Tories fail to acknowledge

## Soundings

risks associated with unrestrained group power, such as exclusivity, cartels and oppression of minorities. So keen are they to throw out the bathwater of old Tory on-yer-bikism that they seem to have jettisoned the baby of individual rights and entitlements. It's hard to find any reference in the new Tories' rhetoric of the need for government to protect individuals against the power of groups or to promote equal access to resources.

These differences will matter a great deal over the coming months. The welfare state as it stands is indefensible. The language of localism, citizen power, trust, belonging and reciprocity is seductive. But we cannot forge a welfare system for the twenty-first century unless it is embedded in social, economic and environmental sustainability, with an overriding commitment to tackling the underlying causes of inequality.

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