



# THE CLASS OF 2010

New MPs on future policy

Edited by Ryan Shorthouse

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New MPs on the challenges of the future

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## **FIRST PUBLISHED BY**

The Social Market Foundation, February 2011

11 Tufton Street, London SW1P 3QB

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## ACKNOWLEDGEMENTS

I am grateful to all those who have contributed their time and thoughts to this publication, which includes Matthew Hancock MP, John Woodcock MP, Stephen Gilbert MP, Sam Gyimah MP, Rachel Reeves MP and Duncan Hames MP. I am also grateful to Edward Seed, Jo Kibble, Joanna Richards, Helyn Dudley, Louise Tinsley and Nicholas Quinn for their support.

I want to thank my colleagues at the Social Market Foundation – Ian Mulheirn, Andrea Rangelcroft, Fanny Paschek and Laura Gibbons – for their thoughts and editing.

Ryan Shorthouse

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## INTRODUCTION

### RYAN SHORTHOUSE

2010 was a truly transformational year for British politics. After thirteen years in power, the Labour Government fell and the new leader of the opposition, Ed Miliband, heralded the end of the New Labour era.

A revived Conservative party – courageously declaring itself the true progressive force in Britain under the leadership of David Cameron – won the largest number of votes in the General Election. But they failed to secure a majority of seats in the House of Commons, and so formed – after a dramatic week of negotiations in May 2010 – a Coalition Government with the Liberal Democrats. For the first time since the Second World War, the Liberals enjoy the reins of power.

To reduce Britain's budget deficit, these two unlikely bedfellows have embarked on a dramatic programme of fiscal retrenchment. Discontent is escalating, occasionally spilling over into civil unrest, as seen with the violent protests against rises to student tuition fees.

Politics has fundamentally changed. And so have the politicians. In 2009, the *Daily Telegraph* was able to expose in detail the expenses of a number of politicians, leading to a series of resignations, retirements and criminal trials.

At the 2010 General Election, there was a huge turnover of MPs, with 232 elected for the first time, making "The Class of 2010" constitute a third of parliamentarians. This new intake will dominate politics for a generation.



In 2005, the Social Market Foundation published *What's Right Now?*, a book with contributions from emerging politicians of the time, including David Cameron, George Osborne, Michael Gove and Oliver Letwin. These MPs now head the Government, implementing the ideas and policies they formulated in opposition for five years. It was in this Social Market Foundation book that ideas such as decentralisation of decision-making to local government, market-based reforms to public services and the need to support socially useful activities such as volunteering – all critical components of the 'Big Society' – were explored.

This book explores the new thinking and policy ideas emerging from the high-fliers in the Class of 2010. MPs who the Social Market Foundation believe will add significant intellectual capital to their political parties in the years ahead write extensively on the problems of the day – from ensuring growth in a period of fiscal retrenchment to guaranteeing adequate pension provision when many baby boomers face a lengthy retirement. Bold, often innovative, policies are suggested, highlighting the passion and intelligence of this new generation of politicians.

Matthew Hancock, Conservative MP for West Suffolk, kicks off the collection with a robust defence of the Government's decision to eliminate the structural deficit over the course of the parliament. Delay in acting, he argues, would lead to even higher debts, which would mean harsher cuts and taxes in the future. Acting now, by contrast, keeps interest rates low, helping families with debt and attracting business investment, which is crucial for future growth and prosperity. Citing evidence from abroad, and the work of John Maynard Keynes, he argues that rapid fiscal consolidation will lead to growth through the restoration of business confidence.

Yes, Hancock says, the public sector job losses will be painful. But we should celebrate the forecasted growth of jobs in the private sector. Hancock argues that higher taxes should play a minimal role in deficit reduction, with the bulk of the job done through spending cuts, so as to avoid strangling business growth and household spending.

John Woodcock, Labour MP for Barrow and Furness, follows with a critique of the welfare system, arguing that reform did not go far enough under the last Labour administration. The minimum wage, tax credits and the new welfare-to-work programmes were remarkable achievements by the Blair and Brown governments, leading to higher employment levels. However, a group of long-term unemployed stubbornly remained and public confidence in the welfare system did not improve.

Woodcock believes the Government's Universal Credit, which aims to improve work incentives, may prove inadequate, especially when certain benefits and tax credits are more tightly means-tested. But, more crucially, he argues it ducks the bigger problem of supporting the long-term unemployed into work. If government will not give sufficient funding to private sector providers running effective programmes, welfare reform will fail. More controversially, Woodcock proposes tougher conditions for those on benefits – constant compulsory work activity for those fit enough to do so, and stricter sanctioning through docked benefits for those who fail to engage.

Next, Stephen Gilbert, Liberal Democrat MP for St Austell and Newquay, expresses dismay at the growing number of young people who are priced out of the housing market. On the demand side, new ways for first-time buyers to access mortgages are needed, including local council provision

and publicly owned banks reassessing lending criteria. On the supply side, unused private land, just like public land, should urgently be brought forward for development. He argues that during the planning process, those in housing need should be consulted in addition to local residents. The New Homes Bonus, Gilbert suggests, needs careful thinking to avoid it simply ending up in Local Authority coffers or rewarding areas with an abundance of land.

On renting, Gilbert believes many tenants face inadequate and unstable accommodation. Tenants who have consistently paid their rent on time ought to have an automatic right of renewal and the Government's scrapping of a national register of landlords was wrong-headed. Cutting Local Housing Allowance will, he points out, hit single, childless young people. Clearly, Gilbert believes boosting housing standards and affordability is a matter of intergenerational equity.

Higher education is critical to catalysing social mobility, argues Sam Gymiah, Conservative MP for East Surrey, in Chapter Four. He takes issue with the assumption that too many people go to university: to remain competitive in an increasingly knowledge-based global economy, Britain needs a more highly educated workforce. So the sector ought to find ways of catering for a wider group of prospective students. He praises the Government's extension of the loans scheme to part-time students, welcomes Government thinking on making it easier for private universities to offer new and innovative degrees, and calls for more support for students to transit from Further Education (FE) to Higher Education (HE).

Gymiah also believes the quality of HE, not just access to it, is a prime issue to address. Market mechanisms – higher

and variable fees, increased competition for students, less reliance on state funding – will lead to universities raising the standards of what they offer. But currently, too many students – especially those from deprived backgrounds – face information constraints. Better careers advice and more information about the returns from different courses at different universities will make students better, and more critical, consumers of higher education, he argues.

Rachel Reeves, Labour MP for Leeds West, moves up the life cycle to the future of pensions, an increasingly pressing problem for governments in developed countries who face ageing populations. Reeves starts with a defence of the last Labour government: pensioner poverty reduced thanks to the Pension Credit, the Winter Fuel Allowance and the Pension Protection Fund. However, she accepts it was not enough to guarantee enough people adequately save for retirement.

She welcomes many of the Coalition Government's reforms: linking the Basic State Pension to earnings, the retention of the Winter Fuel Allowance, increasing the State Pension Age and adherence to plans for auto-enrolment in the Labour-initiated National Employment Savings Trust. But she dissects the details of these policies. Uprating benefits such as the Second State Pension and Disability Living Allowance in line with the Consumer Price Index (CPI) as opposed to the Retail Price Index (RPI) will lead to some pensioners losing out. The accelerated timetable for raising the State Pension Age will hit people currently in their fifties on low incomes. Increasing the income threshold and length of employment with an employer before businesses have to auto-enrol employees will also put many at a disadvantage. A responsible opposition, Reeves argues, will

support the government in identifying the problems to the reforms proposed and press for improvements.

Finally, Duncan Hames, Liberal Democrat MP for Chippenham, suggests a new, radical economic settlement in the wake of the financial crisis. The public and policymakers have become fixated with maximising profit and spurring economic growth, he argues, leading to unsustainable levels of mental illness, income inequality and pressures on the environment. Community and family life have suffered with a culture of long working hours.

It is time to balance our work and leisure time better, argues Hames. Volunteering and caring ought to be encouraged and supported by recognition through the tax system and the extension of flexible working. Jobs could be salvaged in these difficult times by sharing work more equally, cutting back on each employee's working hours and days. People need to start thinking and living sustainably, for the sake of their wellbeing, families and the environment, he claims.

The contributors tackle different themes. However, each explore how the market and market forces can be utilised or shaped to deliver socially beneficial ends, especially in this period of government austerity.

This new generation of politicians – the Class of 2010 – bring fresh energy and ideas. But they face huge challenges: a demographic timebomb, a huge budget deficit, intergenerational inequity, the persistence of poverty, climate change, the rise of eastern economies and the shift in global power. Once again, the core of social market thinking – how the state and market interact to achieve the

best possible outcome – will remain central for politicians and policymakers in the quest for answers.



## CHAPTER ONE: GROWTH WITH CUTS

MATTHEW HANCOCK MP

The pundits and political soothsayers - those people who regard themselves as experts on the way Britain is run - got it wrong. As the Coalition was formed in May 2010, almost all the experts predicted the Coalition Government would be short and weak. Even now, most people think its strength is a surprise given the difficult times. Yet from my new seat in the Commons, I find that these difficult times do not weaken the coalition, but strengthen it.

These political dynamics are underpinned by economic analysis: that it is only by following a credible plan to restore the nation's finances to health that growth can sustainably be restored. Further, to accomplish that job, all of us must accept cuts that we don't like. This task of restoring fiscal sanity is more important than any particular cut, and more persuasive than any particular interest group. Everyone must bear their burden.

This argument - that only by dealing with the deficit will we restore sustainable growth - is underpinned by strong economic evidence. Indeed, far from undermining growth, dealing with the deficit is a precondition for sustainable growth.

There are some who do not accept this assessment of the evidence. For some, this is due to an entirely understandable concern for the future of their families or business. For others, it is a consequence of calculation and political expediency.

Politically motivated opponents of the UK's plan to deal with the deficit raise several questions about the depth and

cause of the fiscal hole we find ourselves in, the timing of action, and the analysis of how we get out. These must be taken head-on.

## DEFICIT DENIAL

Firstly, some deny the scale and cause of the problem. Too often, this includes a wilful attempt to confuse the deficit with the debt. The annual deficit, by which the debt rises each year, is the gap between what the nation spends and what it takes in taxes. At 11% of national income, the UK's deficit was the highest in the G20 going into the crisis, rose fastest, and became the highest in our peacetime history. This record deficit means our debts are rising at a record rate.

Clearly before we can even touch the debt, the first act must be to tackle its growth: the deficit. After all, even while dealing with the deficit, the Government's current plan will leave the debt rising every year of the current Parliament. Acting more slowly would leave the debt rising in the next Parliament too. The economic literature supports this view: it is the deficit – or the sustainability of any given debt level – that matters.

Often, those who deny the scale of the deficit problem say the banks must pay as they caused the mess. This ignores the size of the deficit that existed as we entered the crisis. In prescription it ignores the fact that the hole is far larger than any extent of revenues from the banks could fill. I support the Government's under-articulated goal of extracting the maximum possible revenue from the banks. But it is impractical to say it alone will fill the hole.



Another approach is to pretend the economic legacy of the previous Government was benign, and that borrowing came in below forecast. But to paint a record deficit as a success just because you got your forecasts wrong is absurd.

## DEFICIT DELAY

For those who accept the need to act, some then argue for delay. But delay has a price. The direct cost of delay is quantifiable and the numbers are large. We are currently paying out £120 million a day in debt interest.<sup>1</sup> According to the Treasury, the direct consequence of the deficit reduction plan was to reduce interest payments by £4bn by the end of the Spending Review period.<sup>2</sup> Taking longer to deal with the deficit would leave us with higher debt, so permanently higher interest costs, and greater cuts in other government spending. The indirect costs of delay are higher still, in terms of the loss of confidence and private sector growth.

This argument is sometimes expressed in terms of job losses. Evidence is put forward about the likely number of job losses from dealing with the deficit. Yet even those who have estimated the likely cost in terms of jobs argue that inaction would be worse. A PricewaterhouseCoopers (PWC) report, which estimated around a million jobs will be lost as a result of the need to deal with the deficit, went on to argue that: “The fact that the public spending cuts will, considered in isolation, imply large job losses in both the public and private sectors should not therefore be taken to

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1 House of Commons, Government answer to written parliamentary question, 20 Oct 2010, column 949.

2 House of Commons, Government answer to written parliamentary question, 12 Oct 2010, column 280.

imply that the situation would be better had this fiscal squeeze not taken place: on the contrary, it is likely that the long run performance of the economy would have been even worse in that case due to higher interest rates and a greater risk of financial crisis.”<sup>3</sup>

A further argument is sometimes made that by reducing public sector employment, costs actually rise due to unemployment benefits and lost tax revenues. For this argument to be valid, the cost to the state of not employing someone must be higher than the cost of employing someone. Were this “redundancy fallacy” true, it would be a terrible indictment of the system. Thankfully, it is not borne out by the evidence. The Office for Budget Responsibility (OBR) finds that far from adding a multiplier to demand, extra spending increases demand by only a third of the cost of that spending.<sup>4</sup>

Sometimes they say that only deficit-funded growth will get the deficit down. So let’s go through the logical steps. They say increase the deficit to help growth, then the growth will help deal with the deficit. That collapses to saying we should increase the deficit to deal with the deficit. The argument so obviously defies logic it’s a surprise anyone serious uses it.

## GROWTH

So if action on the deficit is the necessary and least risky path ahead, what, then, will be the impact on growth? The economic evidence from experience around the world

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3 PricewaterhouseCoopers, *Sectoral and regional impact of the fiscal squeeze: an economic analysis of the impact of spending cuts and tax rises* (London: PricewaterhouseCoopers, 2010), 3.

4 HM Treasury, *Budget 2010* (London: Her Majesty’s Stationery Office, 2010).



shows that if the coalition adopts the correct fiscal policies, the UK's economic future can be one of growth, innovation and prosperity.

There is now extensive empirical evidence that as well as providing the basis for sustainable growth in the long term, fiscal consolidations can support growth in the short term. In the 1990s, work by McDermott and Westcott (1996)<sup>5</sup> and Alesina, Alberto and Perotti (1997)<sup>6</sup> provided the first evidence to support this. A study in 2003 by the European Commission found that of 74 consolidations examined, in 43 cases growth accelerated.<sup>7</sup> In the mid-1980s, Spain, Portugal, Denmark and Ireland all had to rein in large deficits and their economies grew as a result. Finland, Sweden and Italy had similar experiences in the 1990s. Canada made large cuts in the 1990s. Its economy then grew. The 2003 European Commission report suggests growth followed consolidation in more than half of the cases examined.<sup>8</sup> These examples show that even in the short term, getting to grips with the finances can help growth.

But how?

Clearly, improving the supply-side performance of the economy is important. Encouraging enterprise, innovation and job creation by businesses is critical.

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- 5 C. John McDermott, and Robert F. Westcott, "An empirical analysis of fiscal adjustments" (Working paper no.96/59, International Monetary Fund, 1996).
- 6 Alberto Alesina and Roberto Perotti, "Fiscal adjustments in OECD countries: composition and macroeconomic effects" (volume 44, International Monetary Fund staff papers, 1997), 210-248.
- 7 Gabriele Giudice, Alessandro Turrini and Jan in 't Veld, "Can fiscal consolidations be expansionary in the EU? Ex-post evidence and ex-ante analysis", (Economic paper no.195, European Commission, 2003), 11.
- 8 Giudice, Turrini and in 't Veld, "Can fiscal consolidations be expansionary in the EU?", 17.

Getting to grips with the finances is critical too. When public finances are being brought under control, the extra jobs must be created by the private sector, it is naturally harder for politicians and commentators to pinpoint exactly where they come from. This private sector growth requires the confidence the government's own finances are sustainable.

The economic evidence has been clear for many years. It was set out by a surprising source: John Maynard Keynes. He said: "The problem of recovery is, therefore, a problem of re-establishing the volume of investment. The solution to this problem has two sides to it: on the one hand, a fall in the long-term rate of interest so as to bring a new range of propositions (business investments) within the practical sphere; and, on the other hand, a return of confidence to the business world so as to incline them to borrow on the basis of normal expectations of the future".<sup>9</sup> Quite so.

## INTEREST RATES

Probably the most important mechanism is through lower interest rates. By giving confidence to investors that the Government will honour its debts, the interest premium on those debts will fall. Even with short-term official interest rates at rock bottom – as they are now – the rate at which the Government can borrow over a period of months and years can thus fall. This has the direct impact of reducing the cost of interest payments by government.

Crucially, all other interest rates in the economy are based off government interest rates. So the interest rates

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9 John Maynard Keynes, *Collected writings Vol. 1 of Indian currency and finance*, Ch 5, 358.

charged to businesses, on mortgages, and to households are all lower than they would be.

Since the formation of a Government determined to deal with the deficit in May 2010, market interest rates have fallen to record low levels, after having been broadly flat for months in the run up to the election. Rates for borrowing at two and three years, off which many mortgages are based, have halved.<sup>10</sup> This contrasts sharply with countries with high deficits, like Spain and Portugal, where interest rates have risen since May 2010. Those who say that rates were falling before the election miss the point that markets look forward, and anyway rely on some very specific choices of dates. What's more, since household debts are the highest in our history, low interest rates are welcome for families struggling under the burden of debt. In the UK a rise of 1%-2% in mortgage rates would add some £700-£1,400 to the average annual mortgage bill.

Importantly, with the world economy fragile, Britain is less at risk of a catastrophic and disjointed loss of confidence that has befallen other European economies. Rating agencies Moodys and Standard and Poor's have confirmed that our valued AAA rating is now stable once again. They cited Government action as a cause of the stability, and went so far as to mention that a loss of support for the plan would once again put the rating at risk. The IMF has also endorsed the Government's plan saying it "greatly reduces the risk of a costly loss of confidence in public finances".<sup>11</sup> Further support comes from Jean-Claude

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10 Bloomberg, "UK Government bonds", <http://www.bloomberg.com/markets/rates-bonds/government-bonds/uk/>.

11 International Monetary Fund (IMF), "United Kingdom - 2010 article IV consultation concluding statement of the mission", September 27, 2010, <http://www.imf.org/external/np/ms/2010/092710.htm>.

Trichet, President of the European Central Bank, who has argued that a credible fiscal consolidation plan would restore confidence. He said: "I firmly believe that in the current circumstances, confidence-inspiring policies will foster and not hamper economic recovery".<sup>12</sup> Most recently, Angel Guria, Secretary-General of the OECD said of the Government's plan: "No they should stay the course. The package was an ambitious, far-reaching package. It cleared the markets in terms of its credibility. It's what was necessary. The fiscal situation in the UK absolutely requires this approach".<sup>13</sup>

Expectations play another key role too. The short-term official interest rates set by the independent Bank of England take into account the stance of fiscal policy. So, if the Bank, in its independent deliberations, thinks that fiscal policy will reduce likely future inflation, then they are likely to leave rates lower for longer. People who lend money to the government by investing in government bonds will factor expectations of the Bank's reaction function into the interest rates they charge.

## CONFIDENCE

As well as this interest rate mechanism, getting to grips with the nation's finances has a direct impact on business confidence or "animal spirits". With a credible plan to live within our means in place, businesses can have more confidence to make long term investments, and

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12 Elena Polidori, "Interview with La Repubblica", European Central Bank, 16 June 2010, <http://www.ecb.int/press/key/date/2010/html/sp100624.en.html>.

13 Reuters, "OECD's Gurroa says UK inflation under control", Reuters, January 26, 2011, <http://www.reuters.com/article/2011/01/26/britain-economy-oecd-idUSLAL00461920110126>.



international businesses can have more confidence in the UK as a destination for investment.

This confidence can come through a more stable macro-economy. But it also comes through the knowledge that emergency tax rises are less likely. For households and businesses that do not live on each month's pay cheque, and instead manage their finances, the fear that the hole in the nation's finances will be transferred to them through higher taxes, can lead to lower demand. People are not stupid, and most can do something about it.

A credible fiscal consolidation which implies a permanent reduction in levels of government spending may lead households to expect lower levels of taxes in the future. This reasonable expectation can raise consumption, and boost output and demand even in the short term.

I grew up in a family that ran a small business, so I know how important this is. Lower interest rates, a smaller threat of future taxes, and a stable economic outlook allow companies to plan and gives them confidence to invest and grow.

By undermining this confidence, high levels of government borrowing can displace – or “crowd out” – private investment. Likewise reducing borrowing can increase confidence, keep interest rates down, and so support the companies we need to power us out of the current economic malaise.

These positive consequences of getting to grips with the finances – of lower interest rates, increased confidence, and freeing up resources for productive use – are all reflected in any household's own experiences of debt.

Macroeconomic management of course involves monetary policy as well as fiscal. The mix of tight fiscal policy and loose monetary policy is crucial to understanding the Government's economic stance. But to explain the difficult decisions to the public, the analogy with the household budget is strong. Most families know from handling their own finances how important it is to live within ones means, how interest charges will be higher if debts pile up, and how confidence is undermined by financial irresponsibility. So those who argue for fiscal responsibility have a language within which to explain and persuade.

The lessons from the evidence are clear. Cuts can help growth, even in the short run. The starting point is to have a credible plan to deal with the deficit, and then follow that plan. The evidence also gives us three lessons on what that plan should include.

## HOW TO CUT

The first lesson from the evidence is that cuts are most effective when a credible plan is clearly set out and then adhered to. Credibility is likely to be higher when plans begin immediately. The study by the European Commission found that consolidations that were followed through to conclusion were most likely to lead to stronger growth.<sup>14</sup> It is easy to see why. Setting out a clear plan helps businesses to plan themselves, and helps signal to markets the period for which fiscal policy will be tight. Sticking to that plan helps bolster confidence that stability will be maintained, and future costs through higher taxes will be avoided.

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14 Giudice, Turrini and in 't Veld, "Can fiscal consolidations be expansionary in the EU?".



In the UK, the IMF supported this view when they said that the credibility of the UK Government's plans have been "bolstered by a front loaded path".<sup>15</sup> Standard and Poor's, the credit rating agency, which has a direct impact on investor and business confidence, said that their rating of the UK would "come under downward pressure" if the government's "commitment to fiscal consolidation faltered to the extent that it would result, in our view, in a sustained increase in the general government debt burden as a percentage of GDP."<sup>16</sup> This helps explain why the evidence shows that sticking to plan A helps support growth. It also helps explain why the fairness of the cuts matters for economic policy. Ensuring cuts are fair helps keep public support for dealing with the deficit, and so helps keep the economic policy on track.

The second factor that increases the likelihood of higher growth is the consolidation's composition. Growth is most likely to be supported by more cuts rather than tax rises. Analysis by the OECD suggests the best balance for growth is 80% cuts and 20% tax rises.<sup>17</sup> Alesina and Ardagna<sup>18</sup> have gone further, suggesting that spending cuts as well as some tax cuts are the best mix – although later work has raised questions about that analysis.<sup>19</sup> There are more risks associated with consolidations based on tax rises. If a government is living beyond its means, growth can only

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15 International Monetary Fund, "United Kingdom—2010 article IV consultation", <http://www.imf.org/external/np/ms/2010/092710.htm>.

16 Standard and Poor's, "United Kingdom outlook revised to stable; 'AAA' ratings affirmed", 26 October 2010, <http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245231048727>.

17 Alesina and Perotti, "Fiscal adjustments in OECD countries", 210–48.

18 Alberto Alesina and Silvia Ardagna, "Large changes in fiscal policy: taxes versus spending", (NBER Working Paper 15438, 2009).

19 International Monetary Fund, "Will it hurt? Macroeconomic effects of fiscal consolidation", in *World economic outlook: recovery, risk, and rebalancing* (Washington: International Monetary Fund, 2010), 93-122.

come from private businesses; tax rises that discourage enterprise would harm any prospect of boosting that private sector growth that we so badly need.

Which spending is cut matters too. Infrastructure spending that supports growth is clearly preferable to spending that is wasted, or spent on transfer welfare payments that reduce incentives to work.

Finally, the evidence suggests that the bigger the deficit, the more likely the cuts will help growth. This finding from the evidence might seem counter-intuitive. Surely the bigger the cut, the greater the direct impact on growth? But of course the bigger the deficit, the bigger the problems it causes in terms of confidence, crowding out, and high interest rates. This finding is fortunate for the UK, as the current deficit is of record proportions, historically, and internationally.

## OPTIMISM

Britain lives in tough economic times. To guide us through we must learn from the evidence, and from what has gone before. Despite the unavoidable cuts we must make, there is cause to be optimistic.

Making cuts to government spending can be done in a targeted and fair way, and cutting is not necessarily paid for by a fall in growth. It is possible both to cut wasteful spending and provide the UK with the firm foundations for sustainable, self-supporting future growth. We have some lessons from history to draw on. Countries have been in a similar predicament as we are in before, and we can use their lessons to turn this around. Confidence matters. It matters for businesses and it matters for investors. It will be



key to getting the country back on a firm financial footing, getting consumers consuming, businesses investing and the country growing again. We need to build this confidence, which we can do by having a credible plan. Then we need to be consistent in sticking to that plan.

Confidence, consistency and credibility will be the lynchpins supporting an agenda focused on growth and underlined by fairness. It is this project, to deal with our debts, and to restore sustainable economic growth, that ties together the parties of government.

## CHAPTER TWO: MAKING WELFARE WORK

JOHN WOODCOCK MP

Welfare reform is already shaping up to be one of the defining battlegrounds of British politics as the country emerges from the financial crisis.

Running through the heartland communities in which the politics of the progressive left is rooted, and the marginal seats where Labour often faltered at the last election, is a desire for empowering but tough changes in the basic deal between benefit claimants who are able to work and the taxpayers who support them. The new Government has understood that and are talking up a suite of reforms they claim will initiate a step change.

But ministers seem to have misunderstood what it takes to deliver such a change. That should be Labour's opportunity to show it genuinely understands the communities it seeks to champion by taking to radical new levels the 'something for something' welfare principle that we began to develop in government.

### LABOUR'S LEGACY

The early debate on worklessness post election is a microcosm of the wider debate over the country's recent past and its future direction.

Like so many areas, Labour's legacy of change between 1997 and 2010 is being comprehensively rubbished by the incoming administration which says it will transform things with a different approach. Welfare Secretary Iain Duncan Smith described the ideas set out in the Government's

command paper, *21<sup>st</sup> Century Welfare*, as “the most radical overhaul of the system in a century,” and added:

*“We are proposing to change forever how the system works. Not tinkering around the edges but a fundamental change from the top to bottom. Making it easier to help people into work, fairer to those who pay for the welfare state and continuing to provide unconditional support to those who need it.*

*This will affect everybody which is why I want everyone with a view on the way forward to contribute. I believe these changes will make work pay and end the poverty of aspiration that has trapped too many people for generations”.*<sup>20</sup>

In any discussion about the future of the welfare system, the idea that nothing worthwhile happened on welfare reform over 13 years of New Labour in government is absurd. It is insulting to the many thousands of people who did break out of the trap of benefit dependency during those years, helped by many dedicated workers in the public, private and voluntary sectors who pioneered new ways to help them do it.

The early New Labour reforms of the New Deal and tax credits brought new work opportunities for many thousands of people. Later, more were helped by reforms that introduced obligations and support to Incapacity Benefit (IB) and Income Support (IS) for lone parents. That contributed to 1.7 million extra people in employment

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20 Department of Work and Pensions, “Calling time on benefits culture: work must always pay and be seen to pay”, July 30, 2010, <http://www.dwp.gov.uk/newsroom/press-releases/2010/july-2010/dwp100-10-300710.shtml>.

compared to when Labour came to power and a 15% increase in the number of lone parents in work.<sup>21</sup>

Critics of the last decade may fail to admit that, pre-1997, many were supporters of a regime that compounded and institutionalised benefit dependency by allowing numbers of IB claimants and the long term unemployed to soar without any genuine support.

## REFORM

Yet, the critics of Labour's record on back-to-work benefits are partly right: Britain under Labour should indeed have gone faster and further on welfare reform, and started earlier. Though the changes made were important, the impact they made on the ground often failed to match the radical consequences that both proponents and opponents forecast.

I was an adviser to John Hutton in the Department for Work and Pensions when the last government brought forward legislation to replace incapacity benefit with a new Employment and Support Allowance (ESA).

The changes introduced the principle that claimants of sickness benefit had a right to expect help with getting ready to return to work, but had a responsibility to engage with the support on offer as a condition of continuing to receive benefit. It was a genuinely radical change after years in which people 'on the sick' were effectively left to their own devices, with nothing much required of them and no support given to help them get better.

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21 Office of National Statistics, Labour force survey, <http://www.statistics.gov.uk/statbase/Source.asp?vlnk=358&More=Y>.

For the thousands who did get back to work with the help of specialist programmes, the effect was life-changing and the long-term savings for taxpayers considerable. The change reversed the alarming rise in IB numbers in the early 1990s and set a steady downward trend.<sup>22</sup>

Nor should people underestimate the impact on people's behaviour of sending a signal that IB was no longer a dumping ground where the out-of-work would be forgotten about. That is now being accelerated by the process of reassessing existing claimants' suitability to continue claiming IB – the Work Capability Assessment devised by the last government and being rolled out by the new one.

But while the principle of 'something for something' was radical, the way in which it was applied was often more moderate. While some were successful, for thousands more the intensity of the obligations placed on them and the level of help offered were simply not enough to break the cycle of dependency.

## CONDITIONALITY

The new condition for receiving payments on IB is to engage in what is called 'work-related activity'. That could be a work trial, but it could also simply be addressing a claimant's barriers to work by encouraging them to smarten up his or her appearance. Such activity is designed to get people closer to the world of work but falls a long way short of actually taking active steps to find work.

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22 Department of Work and Pensions Benefit, Caseload national statistics data to May 2010, available at <http://statistics.dwp.gov.uk/asd/index.php?page=tabtool>.

On one level that is absolutely right: IB claimants should be on the benefit because they are less ready to return to work than claimants of Job Seekers' Allowance (JSA), so it would be wrong for the obligations placed on them to be as onerous as those on JSA.

But another reason why the responsibility asked of claimants was relatively weak was because the state's end of the bargain was often pretty flimsy too. Some claimants on particular local schemes got an amazing level of support tailored to their particular circumstances. But for many more, what was on offer was basically an interview with a professional every other month.

They would discuss how things were going, talk through what jobs might be out there and what work-related activity the claimant had undertaken and what might be helpful in future. It was much better than before, but not close to being enough for many people whose barriers to getting a job had become considerable through long periods on the sick.

Upfront cost was the overriding problem. Getting people off the sick and into work promised big long term savings, but chances of success by any particular method were unproven and the Treasury was unsurprisingly lukewarm about the prospect of sinking vast sums on the promise of jam tomorrow.

## **NEW MONEY**

Which is why so much was pinned on the prospect of harnessing the expertise and, crucially, the up-front investment of private sector providers to step up the support available. In the model developed by Labour and



being adapted by the new government through its Work Programme, providers would take on contracts to use whatever methods worked to help people back into work. They would be paid on results out of the savings achieved by the fact that successful jobseekers would start paying tax rather than claiming benefit.

This is innovative in theory, but its success will be determined by whether the Government is prepared to make the contracts generous enough and comprehensive enough to prevent providers simply supporting the easiest to help claimants, perpetuating the inadequacies of the current system. Whilst the payment categories announced by the Government suggest that this is a concern that has been considered, there remain worrying omissions, such as higher payment rates for helping individuals in deprived areas into work.

While people retain high hopes for the Work Programme, the risk is that the Government will not be prepared to moderate its short-term priority of deficit reduction and give the programme the capacity needed to deliver on the grandiose claims it is making. We have been here before, and the public are likely to be less forgiving every time they perceive the government has over-promised and under-delivered.

## **THE LONG-TERM UNEMPLOYED**

While it was an immense improvement on what went before, there were similar shortcomings in Labour's flagship New Deal for the long-term unemployed.

Though they eventually initiated radical change through the Flexible New Deal and Future Jobs Fund, Labour

ministers were initially too slow to acknowledge and fix the shortcomings that were increasingly pointed out by right wing critics of the programme: namely, that the genuine, groundbreaking success for many thousands of young people was nevertheless not reaching a hardcore of jobless. These were claimants who, for whatever reason, could not, or would not, engage with the help on offer in a meaningful way.

As Chancellor, Gordon Brown's first budget speech warned there would be "no fifth option" for the long term unemployed; they would have to choose between a job, a placement with a voluntary organisation, a place on an environmental taskforce, or a training place. Refusing to engage at all was not allowed. The problem was that some people clearly worked out that in effect the fifth option did continue to exist - as long as you were prepared to play the system.

Anecdotally, new deal advisers would describe how a small but significant number of repeat entrants had worked out that the way to stay on benefit was simply to apply for JSA as a new claimant. Some had even worked out at exactly what point they could drop out of the course early and still keep their benefit.

The figures for repeat entrants backed up the concern that the framework was not tough enough for those hardest to reach. By 2008, 264,000 people had been through the New Deal more than three times and 18,500 had been through it five times or more.<sup>23</sup>

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23 The Conservative party, "A new welfare contract", April 20, 2010, [http://www.conservatives.com/News/News\\_stories/2010/04/~/\\_/media/Files/Downloadable%20Files/a\\_new\\_welfare\\_contract.ashx](http://www.conservatives.com/News/News_stories/2010/04/~/_/media/Files/Downloadable%20Files/a_new_welfare_contract.ashx).

As was reinforced to politicians of all colours on the doorstep during the election, nothing undermines the public's confidence in the welfare system more than the perception that their neighbours are effectively able to fiddle it with impunity. Strikingly, public resentment with those who didn't play by the spirit of the rules seemed even greater at a time of job scarcity, when many claimants were giving their all to get straight back into work after being laid off.

Politicians need to match the public's comprehension that just because in difficult economic times there are more people genuinely trying to use system to get a job, there are not necessarily any fewer playing it to stay on benefit. All parties heard this message, but chose to address it in quite different ways.

## THE UNIVERSAL CREDIT

So far, the new Government seem to be focussing on increasing the difference between the level of income people can expect on benefit and the level they can expect in work, and mapping out a more punitive system for the long term jobless.

To increase positive incentives, the Government promise a Universal Credit system that will include a "generous" income disregard and a single taper rate, apparently reducing disincentives to taking paid employment.

That may go alongside cuts in benefit levels across the board which are being mooted as part of a move to a unified benefit level. Reductions are already on the table for housing benefit.

Cuts in the benefits bill may strengthen the exchequer's coffers at a time of scarcity. It may be something that proves popular with those whose incomes are not hit. But it will undoubtedly force greater hardship on those whose need to claim is genuine. And the Government's focus on 'making work pay' could be costly and yet prove inadequate as an increased incentive to get sufficient numbers back to work.

For some who want to find work, the Government's proposal to increase financial incentives to be in work will be added spur – though for many they will be countered by changes to the Child Tax Credit and reductions in childcare support that will have the opposite effect. Eligibility for Child Tax Credit is cut significantly, even on combined incomes as low as £23,275.<sup>24</sup> Around 1.5 million families will lose eligibility entirely.<sup>25</sup>

## MAKING WORK PAY

For people who have managed to create a stable if financially poor existence living on benefit and would rather stay there than risk the alternative, it is doubtful whether a temporary increase in the marginal value of working will convince sufficient numbers of people it is worth their while to switch. Labour's introduction of payments for lone parents engaging in work related activity as part of the 'New Deal plus' package increased employment, but by a

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24 Lee Boyce, "How cuts to tax credits will affect you", June 23, 2010, [thisismoney.co.uk](http://www.thisismoney.co.uk/news/article.html?in_article_id=506806&in_page_id=2), [http://www.thisismoney.co.uk/news/article.html?in\\_article\\_id=506806&in\\_page\\_id=2](http://www.thisismoney.co.uk/news/article.html?in_article_id=506806&in_page_id=2).

25 HM Revenue and Customs, *Child and working tax credit statistics: December 2010* (London: HMSO, 2010).

relatively small amount: 1.2% overall, and by 7% amongst the longer-term unemployed.<sup>26</sup>

The other part of the 'worth my while' equation is the level of obligation placed on people to receive their benefit, which affects the kind of life they can lead while they are on it.

One of the most remarkable, yet least remarked upon, changes ushered in by the new Government was the way in which those obligations have been weakened so far, rather than strengthened. For all the controversy that ministers have sought to generate with talk of compulsory community work for claimants, in truth they have struggled to match Labour's own record in terms of mandatory work programmes. By axing the Flexible New Deal, the Government has removed the compulsory four weeks of work required of those on JSA during the second year of a claim. The Work Programme contains no such requirement.

For while Labour in government was slower than it should have been in addressing the shortcomings in the New Deal, under Gordon Brown's premiership and James Purnell's time as Welfare Secretary, ministers mapped out ways to increase robustly that conditionality regime. The Flexible New Deal, introduced in October 2009, was more stringent and gave private and voluntary sector providers more freedom to try new approaches.

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26 Marc Suhrcke, Carmen de Paz Nieves, Cristina Otano and Adam Coutts, *Lone parent policies in the UK: the impact of the new deal for lone parents on socio-economic and health inequalities*, (2009), <http://www.marmotreview.org/AssetLibrary/pdfs/full%20tg%20reports/economic%20lone%20parents%20full%20report.pdf>.

## WORKING FOR YOUR BENEFITS

But, under Labour, the most radical change was promised in the 'Work for Your Benefit' pilot, which would come into effect after completion of the Flexible New Deal if work had not been found.

The planned arrangement was for the long term unemployed to undertake compulsory activity for up to six months in a programme provided by the private or voluntary sector providers. There would be at least 30 hours a week of work, with time left over for participants to look for a regular job and receive up to ten hours of training or employment support.

Placements were to be tailored to the skills and aspirations of the participant. But, unlike the New Deal, there was no suite of options from which claimants who wanted to avoid work could choose what they thought was the least onerous.

The schemes had the potential to be just as onerous to complete as full-time work – yet would only be paid at benefit level. For people who actively don't want to work under the current system and are prepared to play the system to do so, this had the potential to change significantly the calculation of whether it was worth their while to stay on benefit.

And crucially, as the then Shadow Welfare Secretary Douglas Alexander has rightly pointed out, the tougher conditions under Labour's plans were matched by a much greater guarantee of support which has been cut by the new Government.



## TOUGHER RULES FOR JOBSEEKERS

Through all this, we should keep in mind that the large majority of claimants actively want to get back to work and are desperate for the opportunity to do so. But for those who could work, yet are tempted to stay as they are, the implicit choice offered by the current system is effectively: play along with moderate obligations to stay on benefit, or take a job that will make you somewhat better off but requires a lot more effort.

But here, the choice for those claimants could become either engage with support to find a job for at least the minimum wage, or work hard on a scheme to improve the community and receive only the level of your benefit in return.

Thus, if applied properly and – crucially – if it is sustained for a sufficient period of time, the now scrapped system would surely greatly increase the incentives for people to move off benefit into work. Unlike what we have seen so far of the Conservatives' alternative, Labour's plans would also have provided increased help for them to do so.

It is extremely unlikely that the removal of mandatory work for the long-term unemployed and the Government's plans for a small scale mandatory work programme left to the discretion of JobCentre advisers are going to be sufficient to really change the basic deal between individual and state in a far reaching and lasting way. If Britain is really prepared to break the culture of worklessness that still persists in some of our most disadvantaged communities, we should be prepared to consider rolling out mandatory work requirements far more widely to those able to work.

What if a programme demanding close to full-time activity, factoring in time to search for work and tailored support to do so, did not simply last for four weeks before returning to a less intense system? What if instead it became the permanent deal for people able to work who had been unemployed for a certain period of time?

And, unless people had a good reason to be absent, what if the penalties for not engaging in the programme directly matched the amount of time missed, as Katharine Hirst's 2007 pamphlet on workfare for the Adam Smith Institute has suggested?<sup>27</sup> So failing to turn up for one day of a five day working week would mean claimants being docked a fifth of their benefit for that week.

## CONCLUSION

Tougher rules on mandatory work for jobseekers would not be easy to deliver. The level of public or private investment needed to create and manage a system comprehensive enough to sustain full time work for a large number of claimants and monitor non-compliance would be considerable. Moreover, the longer term savings from making life on benefit less attractive will not be realised without an effective strategy for growth in the economy to create job opportunities and help for people to get back to work. And there would of course be significant numbers of people whose health or family responsibilities would make such a change inappropriate, as well as questions over how it would fit with the rest of the benefits system.

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27 Katharine Hirst, *Working welfare: welfare recommendations for the UK based on the US reforms of the 1990s* (London: Adam Smith Institute, 2007).



But the long term advantages of this kind of reform could still nevertheless be enormous. It would genuinely put the obligation to work at the very heart of the welfare system in a way long envisaged but never truly delivered.

If combined with the right support, the experience of full-time activity, whether delivered by people getting a job or working in the community on a 'Work for Your Benefit' scheme, could be life changing for families who have become trapped in generations of benefit dependency because they were never given a sufficient and sustained push to change. It could be similarly transformative for communities that remain blighted by that culture of worklessness.

But most of all, reform on such a scale would stand a decent chance, for perhaps the first time, of matching the political rhetoric always attached to new back-to-work schemes with the reality that people experience on the ground.

## CHAPTER THREE: HOMES FOR THE NEXT GENERATION

### STEPHEN GILBERT MP

Housing policy in Britain is in crisis. Young adults looking to buy a home may have to wait until they're middle-aged. In the social sector nearly two million families languish on waiting lists.<sup>28</sup> In the private rented sector, rents are on the up but security of tenure and the quality of the offer is down. Across the country, three-quarters of a million potential homes stand empty.<sup>29</sup> And to top it all, when we do build new homes, they tend to be flats that people don't want to live in and that are among the smallest in Europe.<sup>30</sup>

This bleak picture is the consequence of multiple market failures: the failure of the private sector to take up the slack when the Government, for all intents, left the house building business at the end of the 1970s; the failure of lenders to recognise that a steady stream of first time buyers is necessary to keep the market buoyant; the failure of developers to secure land at the right point in the economic cycle; and the failure of the market to understand what people want to buy.

There's been clear political failure too: not replacing the homes sold under 'Right to Buy'; ending the tax breaks

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- 28 Department for Communities and Local Government, "Local authority housing statistics, England 2007/08", (London: DCLG, 2009), <http://www.communities.gov.uk/documents/statistics/pdf/1126284.pdf>.
- 29 Department for Communities and Local Government, "England empty homes statistics October 2008" (London: DCLG, 2008), <http://www.local.communities.gov.uk/finance/stats/lgfforms/forms/ctb2008form.xls>. The Empty Homes Agency agrees that this is the most accurate data on empty homes currently available as it is based on Council Tax exemptions and reductions. This way of calculating empty homes is the most often used by CLG themselves, here's a recent example: <http://www.theyworkforyou.com/wrans/?id=2009-11-02d.293211.h#g293211.r0>
- 30 Ed Howker and Shiv Malik, *Jilted generation: how Britain has bankrupted its youth*, (London: Icon Books, 2010), 43.

(‘MITA’ (tax relief on mortgages) then MIRAS (Mortgage Interest Relief At Source)) that helped millions get on the property ladder; not ensuring there is sufficient land available for development; failure to resolve the constant struggle in the planning system between the development a local community wants to see and the development that it needs.

These failures are having a profound effect. Millions of people are in temporary, inappropriate or unstable accommodation; a generational divide is emerging between the housing ‘haves’ and ‘have-nots’; millions of people live transient lives unable to play a full part in the communities in which they live.

We need to put housing at the top of our political agenda. If the first job of Government is protecting its citizens, then the second role should be ensuring that people are able to access decent and stable accommodation at a price they can afford.

The Coalition Government is built around the values of freedom, fairness and responsibility. But individuals can’t even begin to rise to these values when they’re left in inappropriate accommodation or living in limbo, often with parents, delaying their adulthood and unable to strike out for themselves.

Solving this crisis will mean real money and co-ordinated action from across Government. We need to simplify the planning system to enable developments and include those in housing need when we consult communities on new schemes; we need to free councils and housing associations to build new social housing; reform the private rented sector to give tenants who pay their bills

greater security of tenure and end the scandal of the hundreds of thousands of empty homes across our country. We need to tackle the lending habits of the banks so that first-time-buyers can access the market; bring back standards over sizes and incorporate in them the best practice for sustainability; good insulation, rainwater harvesting and, in some, areas we need to allow local authorities the powers to limit the number of second homes to ensure sustainability of our communities.

## HOME OWNERSHIP

The evident failure to get housing policy right doesn't live up to the political rhetoric. For decades politicians of all hues have extolled the virtues of home ownership. Something has changed though. Twenty years ago this call to ownership was a call to which people from all age groups could respond. Indeed, in 1990 over half of all homes in Britain were owned by people under 34. Now that's just 29% and falling.<sup>31</sup>

First-time-buyers are now effectively priced out of the market, despite a decade of easy credit and 125% mortgages. Wage inflation has fallen well short of house price inflation. Demand is up, but supply is down and falling further. In 1968, almost half-a-million homes were built in Britain.<sup>32</sup> In 2008 it's just 182,000 and 2010 is expected to see the fewest homes built for a hundred years.<sup>33</sup>

Part of this is a classic supply and demand problem. Prices soared because of increased demand on the available

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31 *Ibid.*, 22.

32 *Ibid.*, 40.

33 *Ibid.*, 40.

housing stock. Developers failed to respond in a timely way. Partly at fault is the cumbersome planning system but the market failed to buy land at the right time. And the banking crisis has hit first-time-buyers hard. Even though house prices have fallen, lenders are now asking for 20 to 25% deposits, so the goalposts for first-time-buyers have moved again.

Solving the problem will need intervention in the market. First, the publicly owned banks need to be asked to revisit the criteria on which they are lending and the level of deposits they are asking for. Local Councils should be encouraged to offer mortgage schemes themselves. And, if we are not just going to sit back and wait for market conditions to pick up, then we need to find innovative ways of encouraging underwriting of the costs that developers face on consented but stalled schemes to get the private sector moving.

## **BUILDING NEW HOMES**

Despite the crisis, what political debate there is on home building is often the result of communities rallying to object to applications in their area. What a local community thinks of as appropriate levels of development and what the evidence says is often very different. Anti-development campaign groups across the country welcomed the abolition of the Regional Spatial Strategies, the previous Government's top down approach to housing planning, for exactly that reason. Developers are less sure. They fear a return to an expensive and slow appeal-led system.

To address this, the Coalition Government has proposed incentives for the new housing – the New Homes Bonus; with local authorities able to retain 100% of Council Tax for

market rate homes and 125% for affordable homes. Yet, at the moment, it's unclear who would benefit from the planned incentives. If the additional money is simply lost into the general coffers of local authorities, and local communities don't see tangible benefits, the plans will do little to mitigate opposition. Any incentive shouldn't be lost to general infrastructure improvements or to subsidise other council activities and the bonus shouldn't be paid for planning consents, as is proposed, but for completed and occupied units.

There's a bigger danger. The Coalition Government is clear there's no "new" money for local authorities, so payments to the authorities that approve housing whether they are new affordable homes or new market homes will come at the expense of the amounts available to other authorities who are, for whatever reason, under providing. This seems to favour the "go-getter" Councils in areas that are pro-development and come at the expense of others. We need to look again at both the level of the incentive and where it goes to make sure it doesn't just reward those areas that already have the land available to build new homes.

## SUPPLY OF LAND

We also need to get more land into the system. There's already an emphasis on bringing unused public land into use but we need to extend that to private land too. If land ends up in a community plan then we should consider a duty for it to come forward for development and the risk that, if it doesn't, it can be acquired by an affordable housing provider.

And we need a wider change too. At the moment the planning process favours those already in homes who are consulted for their opinions. I believe we should consider a statutory duty to consult with those in housing need too. It is, after all, their community too. The views of those in housing need in an area should take equal place alongside the views of those with homes. We need to hear from the housing have-nots as much as we do from the housing haves. At the moment it's too easy for the planning system to exclude the aspirations of the minority from a debate that often centres on the wishes of the lucky majority.

We have an opportunity with the Census next year to discover the hidden army of sofa surfers and those stuck with parents into their twenties and thirties. We need to seize that chance to realise the extent of the problem.

The Conservative Party's solution to this is a concept called "Open Source Planning" designed to give the planning system a radical reboot by making it more local, more efficient, less bureaucratic and is based around getting local communities to articulate a vision for their area. But there's a naivety in this approach. Even with significant capacity building and encouragement, communities are unlikely to develop a vision of their area that encourages significant change and envisages more many new houses. Indeed, more worrying is that implicit in the Conservative approach is an assumption that there would be no national review of housing need. The total of homes needed for the country is not simply the aggregate of each local area.

## RENTING

The private rented sector is, at the moment, picking up some of the slack of our failure to build enough new homes. At the moment just over three million people are in private rented households, representing 14.2% of all households.<sup>34</sup> In that sector, 1.3 million tenants –approximately 40% – are in receipt of housing benefit.<sup>35</sup> The sector has surged in popularity in recent years, with the percentage of households renting privately increasing by 40% since 2001.<sup>36</sup> If that rate of increase continues, there will be more private renters than social renters within the next five years.

According to Shelter, nearly one million people throughout the UK have fallen victim to a scam involving a landlord or a rented property in the past three years,<sup>37</sup> so on average, every MP will have just under 1,500 constituents who have been the victim of landlord scams.

Most private landlords are responsible and honest in how they deal with their tenants and there is legislation that can help those who fall victim to a rogue landlord, but many aspects of existing law are not properly enforced by local authorities. Harassment and illegal eviction are already criminal offences. Local authorities can prosecute landlords

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34 Department for Communities and Local Government, "English housing survey household report 2008-09", (London: DCLG, 2009), <http://www.communities.gov.uk/documents/statistics/pdf/1750765.pdf> CLG, table 1.1.

35 According to DWP figures, there were 1,296,610 HB (including LHA) claimants in the PRS in England in May 2010, while latest figures (from the English Housing Survey, 2008/09) show the size of the PRS in England as 3,067,000 households. As a result it can be ascertained that approximately 40% of the PRS is made up of HB claimants.

36 Department for Communities and Local Government, "English housing survey household report 2008-09", <http://www.communities.gov.uk/documents/statistics/pdf/1750765.pdf> CLG, table 1.1.

37 YouGov survey commissioned by Shelter. See [http://england.shelter.org.uk/news/september\\_2010/1m\\_victims\\_of\\_landlord\\_scams](http://england.shelter.org.uk/news/september_2010/1m_victims_of_landlord_scams).



who commit such crimes, and can serve improvement notices or prohibition orders if housing conditions fall below acceptable standards. If the landlord fails to comply, they can be prosecuted. Landlords and letting agents are legally obliged to protect tenants' deposits using an approved scheme, although that can be enforced only if a tenant takes the landlord to court.

An issue remains, though, over security of tenure for those in the private rented sector. We should reform Assured Shorthold Tenancy so that if you've paid the rent on time every month for the period of the contract, you have an automatic right of renewal for the next twelve months, subject to a rent-review. We can't expect individuals to put roots down in a community if they are constantly on the move. We need to reward tenants who pay their bills by giving them greater security whilst leaving options open to landlords who find tenants are unable to meet their contracts.

Many vulnerable people have been forced into the private rented sector because of the shortage of social housing. Local authorities increasingly look to the private rented sector to house homeless families, which in turn has forced up the bill for housing benefit. The government spends millions of pounds on the private rented sector through the Local Housing Allowance (LHA), and as a major customer in the sector, it is important that government properly monitors quality and standards. The recession has changed the nature of the private sector. There has been an increase in the supply of private lettings as home owners defer sales or are unable to sell and become 'reluctant landlords'.

The National Landlords Association has warned that the planned changes to the LHA will drive vulnerable tenants into the hands of rogue landlords. We need to revisit the decision to scrap Labour's plans for a national register of landlords and end further regulation of letting and management agents.

The national register of landlords planned to allow tenants to make basic checks on prospective landlords. It aimed to make it easier for councils to identify local landlords, thereby making the enforcement of letting rules simpler. The regulation of letting and management agents was aimed at tackling rogue landlords and driving out the worst practices, such as wrongful eviction. It aimed to raise standards and provide protection for landlords and tenants in the event of a dispute. The compulsory written tenancy agreements sought to strengthen the hand of tenants in the event of a dispute and to ensure that tenants and landlords were clear about their rights and responsibilities. With millions of people in the private rented sector, it's right that the government ensures minimum standards and proper arbitration.

## **THE SPENDING REVIEW**

As part of the Comprehensive Spending Review the Government has reformed Local Housing Allowance so that all single, childless adults under 35 in the private rented sector claiming LHA will have their allowance cut from the current one bedroom rate to the shared room rate for the area in which they live. Taken alongside the problems people under 35 are experiencing being able to buy a home of their own, this measure begins to institutionalise a sense that individuals should not be able to aspire to live by themselves for years after their parents were able to do so.

Indeed, housing charity Shelter suggests that housing policy has been one of the biggest losers in the Spending Review, despite the Coalition's commitment to £4.4billion investment and the commitment to deliver 150,000 new affordable homes over the spending period.<sup>38</sup> Shelter estimates that 150,000 new homes is less than a third of the homes needed over the next four years. In 2009, Shelter estimated that an additional 3.5million homes would have to be built in England by 2020 to meet existing and newly arising need. The Coalition Government plans will mean more affordable homes provided than the previous Labour Government put into the market but that will be little consolation to the one million children in overcrowded accommodation and the 1.8million families on housing waiting lists.<sup>39</sup>

As with the incentives for other sectors to build, it's far from clear that the New Homes Bonus, by itself, will go far enough in encouraging local authorities to bring forward plans for affordable housing.

## EMPTY HOMES, SECOND HOMES

Despite the new "localised" world envisaged by the Coalition it's not tenable for Westminster to abandon those in housing need. We need to see a statutory duty placed on local authorities to assess housing need and to then cater for it. It will mean re-creating a level of planning duty that is above the local level but below the national and will

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38 Shelter, "Comprehensive spending review – briefing", October 2010, [http://england.shelter.org.uk/\\_data/assets/pdf\\_file/0009/297549/Shelter\\_briefing\\_on\\_the\\_CSR.pdf](http://england.shelter.org.uk/_data/assets/pdf_file/0009/297549/Shelter_briefing_on_the_CSR.pdf).

39 Department for Communities and Local Government, "Local authority housing statistics, England 2007/08", <http://www.communities.gov.uk/documents/statistics/pdf/1126284.pdf>.

mean going beyond the simple “duty to cooperate” that’s proposed.

Across Britain around three-quarters of a million houses stand empty and many thousands more are empty for part of the year.<sup>40</sup> In Cornwall, there are over 4,000 empty homes and just under 14,000 second homes.<sup>41</sup> At the same time 12,000 people are on the waiting list for their first home.<sup>42</sup> Cornwall could solve its local housing problem if it was able to adequately use the housing stock that it has. The Coalition Government has set out, in the Coalition Agreement, the intention to provide grants and loans to help with the renovations necessary to bring empty homes back into use. But it’s going to take real money, local political will and legal muscle. And if we are going to tackle the spread of second homes in property hotspots, which have the effect of undermining the viability of local schools, pubs and shops then we also need to give local authorities powers to set limits on second home ownership in particular areas.

## SIZE MATTERS

Size is also an issue. Across Western Europe, Britain is the only country not to have minimum standards for the homes we build. Other than the UK, Italy and Luxembourg, homes in the rest of Europe are getting bigger and in most places that’s because they are regulated to minimum size

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40 Department for Communities and Local Government, “England empty homes statistics October 2008”,  
<http://www.local.communities.gov.uk/finance/stats/lgfforms/forms/ctb2008form.xls>.

41 Cornwall Council, *Empty Property Strategy 2010-2013*, (Cornwall: Cornwall Council, 2010),  
<http://www.cornwall.gov.uk/default.aspx?page=2830>.

42 *Ibid.*, 8.

standards. In the UK, ours are getting smaller. The Parker Morris standards regulated sizes for all new homes from 1969, but by 1980 the then Government decided they were too expensive and they were abolished. Early in 2010 a study found that 90% of new homes don't meet the Parker Morris standards of the 1960s and, in fact, one third of homes are smaller.<sup>43</sup>

The homes we do build are also tightly packed now. In 1991 new dwellings were built at an average of 26 per hectare in 2007 it was up to 44.<sup>44</sup> And they are mostly flats. Flats that, according to recent polling, only 3% of people want to live in. 50% want to live in a detached house and 22% want to live in a bungalow.<sup>45</sup>

When Britain was recovering from the ravages of World War Two we had a Ministry of Housing. If it did nothing else, it sent a signal that the Government was determined to rebuild the country with "homes fit for heroes".

## CONCLUSION

Whether it's with or without a new Ministry, I believe we need to send that signal again. Government can't expect people to have a real connection with the community around them if they feel marginalised, insecure or are too transient to develop links. With the Government putting significant emphasis on local community spirit mobilising to take up new responsibilities then we need to make sure that everyone feels engaged and involved in the community in which they live. At some point Britain will have to face up to

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43 Howker and Malik, *Jilted generation: how Britain has bankrupted its youth*, 43.

44 *Ibid.*, 45.

45 *Ibid.*, 45.

our failure to get housing policy right. The measures I've set out in this essay gives the Coalition Government some ideas for how we can do it sooner rather than later.

## CHAPTER FOUR: HIGHER EDUCATION IN THE 21ST CENTURY

SAM GYIMAH MP

Even in this era of mass participation in higher education, we are still moved by stories of students from working class families who make it through our schools system and become the first in their family to go to university. We are moved because graduating from university, the pinnacle of our education system, requires significant endeavour and a high level of intellectual aptitude – and these people have often overcome significant odds to do so. Friends and family of the working class student, proud of all they've achieved in itself, would also be forgiven for sharing the hope that a university degree will bring with it enhanced employment and earnings prospects in the future – in short a truly transformational effect on a young person's life.

Sadly the experience of many students is, in reality, one of desperate disappointment. According to the Higher Education Career Services Unit, graduate unemployment is at a record 8.9%. This is in large part due to the recession, but graduate unemployment remained at roughly 6% for the past decade.<sup>46</sup> On graduation some students are plunged straight into unemployment, having their hopes dashed as they are rejected by every employer they approach for not having the requisite skills or experience. The choice they face is further study to enhance the qualifications they once thought would be more than enough to secure a job, or a kind of professional pinball where they bounce from internship to internship – often only if they are lucky enough to have the personal

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46 Higher Education Careers Services Unit (HESCU), *What do graduates do?*, (Manchester: HESCU, 2010), 4.

connections to secure them – in a desperate bid to fill their time with something that they hope employers will look more kindly upon.

With hard work and perseverance the hope of landing the dream job can become a reality. But it is only the fortunate few who get to follow this path which often requires huge parental financial support to cover the cost of internships (which are typically unpaid) or further study. The less fortunate give up the hope of landing a dream job quickly and take up employment without the prospects they envisaged when they embarked on their journey to university.

So while Britain remains a world leader in higher education in the wider scheme of things, second only to America, the financial reality for many on an individual level – with the exception of the few who attend our most selective universities or read highly specialised courses such as medicine, which are subsequently often well remunerated by employers – is that university is not really always the game-changer as far as one’s prospects in life are concerned. And with some university drop-out rates hitting 20%,<sup>47</sup> many don’t even end up with a degree at all to show for their time at university. For many, the university experience they end up with, no matter how much they apply themselves, simply does not equip them adequately with the skills or mindset for the challenges of the 21st century world of work.

That much of our university system has failed in this respect should not come as a surprise, given where our gaze

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47 Rebecca Attwood, “Sector offers UK real value for money, v-cs claim”, Times Higher Education supplement, April 22, 2010.



has been focussed for much of the last 20 years. Government policy and public debate have been absorbed with the funding crisis facing universities and the rise in tuition fees that has emerged as a result of the expansion of higher education. We've completely ignored the more fundamental, and crucial, questions around the quality, outcomes and purpose of an expanded higher education system. Commentators and policymakers spend a lot of time knocking Oxbridge – how many times have we read about the “outrageous” rejection of a particular state school pupil with 5 A's by one of their colleges – as if this typifies all that is wrong with our universities. It is not. And our higher education system, including what the student gets out of it, has suffered without this broader debate.

## NO TURNING BACK

Blaming the challenges of the higher education system on over-expansion has become de rigueur among voters, commentators and industry bodies. For many, the lack of basic skills among recent graduates is a direct consequence of the fact that our university system is producing “quantity rather than quality.”<sup>48</sup> Proponents of this view argue that we might as well accept that university is not for everyone and let the number of applicants drift downwards as people realise that only a certain number can get in each year, and the rest will have to find something else to do. A return to the good old days where there were proper degrees at universities and everyone else got on with apprenticeships and learning a trade would suit them nicely.

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48 Confederation of British Industry (CBI), *Stronger together: businesses and universities in turbulent times: a report from the CBI higher education task force* (London: CBI, 2009), 6.

Unfortunately, we don't live in the good old days anymore – the world has changed, and we should face up to this new reality.

You're more likely nowadays to rise quickly through the ranks at most companies by applying to their graduate recruitment programme than by working your way up from the shop floor. Moreover, I don't see many of the middle classes who espouse this view that university degrees aren't what they once were discouraging their own children from applying to university.

It makes sense on an individual level for graduates to strive to get to university. They know that graduates on average earn more – the graduate premium varies according to who you talk to, but it is said to be around £100,000 over the course of a lifetime.<sup>49</sup> Those who apply are also fully aware that there are several opportunities that did not require a degree 30 years ago that now more often than not do, for example nursing, law and accountancy. In fact, a first degree is the minimum required for many jobs, and not having one can severely limit your options.<sup>50</sup>

Most young people recognise this and realise that they need to go university to keep pace with their domestic rivals and compete in the global market place for talent. As the pool of graduates expands employers respond more and

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49 In part, the discrepancies in the figures quoted for the graduate premium are down to the methodology used in calculating them – new estimates compare graduate wages to those of people who had A Levels but chose not to go on to university (rather than with the pure national average wage, which included graduates, as previously), and the premium came down from £400,000 to £120,000 with this shift in methodology.

50 Only one in four of The Times 'Top 100 employers' accepts non-graduate entry routes. See Alan Milburn, *Unleashing aspiration: the final report of the panel on fair access to the professions* (London: HMSO, 2009), 21.

more by recruiting solely from this pool – and not being in it puts you at a severe disadvantage.

However, just as there are those who can't take the risk of not going to university, there are those for whom going to university is still too big a risk to take. Mass participation in higher education is still in a large part a middle class phenomenon, even though successive governments have put enormous resources into encouraging more disadvantaged students to go to some of our most selective universities. The proportion of young people going from privileged areas to the most selective universities has increased since the mid 1990s from 15.7% to 18.2% today – while for those in the most disadvantaged areas there has been little change (1.9% to 2.0%).<sup>51</sup> Any solution to the challenges of higher education must not just have measures to deal with "access" bolted on as an after-thought; it must have at its heart – woven into the fabric of the system itself – the notion that everyone capable should get the chance to go to university, no matter what their background.

## A GLOBAL PHENOMENON?

Other countries are expanding their higher education numbers – and they're expanding them faster than we are. Britain has slipped behind many of its competitors.<sup>52</sup>

In the last few years, Britain has dropped from 3rd to 14th in OECD rankings of percentage of young people being sent to university, and moreover, all OECD countries have

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51 Sutton Trust, "Submission to the independent review of higher education and student finance", (London: Sutton Trust, 2010), 2.

52 Organisation for Economic Cooperation and Development, *Education at a glance 2010: OECD indicators*, (OECD, 2010).

had rising numbers attending university for the last 30 years (with Switzerland being the main exception).<sup>53</sup>

Our competitors have recognised the advantages to be gained from having a highly skilled workforce. They are looking to produce workforces which support their economies, which are highly skilled and flexible, and which can adapt to new technologies and new industries to seize those opportunities when they present themselves. That's what we've got to be doing.

Mass participation in higher education is here to stay; now we've got to make it work for everyone who wants to take part.

## A NEW TYPE OF UNIVERSITY

To achieve this we need to move beyond the 'one size fits all' system – the 18-21 on-campus undergraduate experience – that currently typifies much of our higher education system as it currently stands.

Universities have to become more reactive to the needs of students, especially in an era where students are contributing more and more to their education in financial terms. This will also hopefully help to reshape how we think about higher education in the 21st century; no longer as a three year self-contained "Uni" experience where learning and knowledge are dumped with graduation celebrations, but as an ongoing process that can be dipped into at different points to boost skills and further career prospects when required.

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53 OECD, *Education at a glance 2010*.

The success of institutions such as the Open University, Birkbeck and BPP have highlighted the extent to which there is a real demand for a slightly different higher education experience. Satisfying this demand will not only improve the student experience, but also has the potential to drastically improve access to universities for the poorest students. There is some diversity in our system at present, but we should make it one of the hallmarks rather than the exception.

Making it easier for new providers to enter the market and compete on a level playing field can provide credible alternatives to the traditional experience.

These new institutions also often bring different cost structures to the industry – not every university needs a fully fledged research function, libraries and the real estate associated with a traditional university. BPP, for example, offers two year degrees specialising in law and business, with a teaching-focussed model which has the potential to be much more cost effective than a traditional course. Law firms respect the degrees awarded, and the model works for those who enrol because they gain valuable qualifications relatively quickly; in other words, it works for students and for their future employers.

These institutions can come in and take over failing institutions, restructuring them and delivering better outcomes for the students. It's the worst kept secret in the industry that there are a number of higher education institutions that are struggling financially at the moment.<sup>54</sup> These are often large employers in the area, and enabling

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54 Moreover, many universities that aren't currently failing have little idea of their financial performance. They don't know what makes money and what doesn't – the fact that they're still in business has little to do with good financial management and a lot to do with luck.

providers with a track record of delivering for their students to take them over could help the students and prevent wholesale job losses which could devastate the local economy.<sup>55</sup>

There is also scope for challenging the notion that the person who teaches you the course has to award you the degree; we don't do it with GCSE's or A Levels, so we should explore whether we can offer alternatives in this area too. Accredited degrees, awarded from prestigious universities but taught in a more local setting, have the potential to allow many more people to gain top quality qualifications without some of the burdens that can prohibit them from taking part under normal circumstances. So, for example, those who would struggle to move away from home for family reasons but don't have a good enough local university to fulfil their goals in life, could learn in the local further or higher education institution but take the same exam that someone at one of our more prestigious universities sits and then gain one of their better known degrees. Another option would be that specialist teaching providers, such as Kaplan, offer accredited degrees, providing a different experience to that of a traditional university, but with the benefit of a prestigious degree at the end if you pass the relevant exams.

It is encouraging that the new government is thinking along these lines – the move to award BPP University College status in July 2010 highlights their approach – but we need to look at making it even easier for new providers to enter the market if they feel they can offer something to students. For example, we could examine the discrepancy

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55 For example, Bristol University is the second largest employer in the city, second only to the NHS.

between private providers and the publicly funded HE institutions in terms of the period of time they are allowed to award degrees for – currently a six year period for private institutions, before it is revoked and they have to re-apply, versus an unlimited one for the publicly funded sector. This is severely anti-competitive, and limits the ability and interest of the private sector to enter the UK degree awarding arena. Or we could look to amend the Financial Memorandum that institutions have to sign to qualify for funding from the Higher Education Funding Council for England (HEFCE), so that private providers are put on a level playing field, allowing them to effectively set up and provide an alternative to the traditional university experience.

At the moment there are burdensome legal requirements which must be complied with which are not entirely relevant to the operating models of these non-traditional providers; and surely it undermines diversity if the prescriptive nature of the regulations simply force all providers to become alike? These proposals are by no means exhaustive, but we should recognise that the Government has a key role to play in creating the conditions for non-traditional providers to set up and offer a real alternative for students.

Stimulating diversity by having different models of higher education available to students, whether they end up choosing a traditional research-focused campus institution or a new provider offering something slightly different, will not only fit the needs of the students better – thus potentially increasing participation from those who currently miss out – but it is also a way to drive up standards. This is critical to improve graduate employability and ensure degrees represent real value for money.

In such an environment where there are many institutions tailored more appropriately to the needs of each individual student, all institutions will have to up their game to fit in with these needs – they'll have to start to compete on different metrics (price, prestige of degree, bursaries, flexible hours, 1-on-1 teaching), otherwise they risk getting left behind by more responsive institutions.

## FULFILLING AMBITIONS

Around 40% of people going onto higher education do so on a part-time basis.<sup>56</sup> For many, they simply cannot afford to take the time off work to go to university. For others, their lifestyle means that this isn't practical either. And there are also those who want to dip back into higher education at a later date – perhaps to learn new accounting skills to start running their firms' books, or to shift sectors and move from marketing to the financial analysis department in their company.

This is the world we live in, both economically and socially, and our higher education sector should be shaped to deliver for these people too. So it's right that the government have extended the loans system to part-time students and it's right that we allow institutions to come in who can offer this more tailored experience so that personal circumstance is no longer such a barrier to entry into higher education.

But we also need to go further, making sure that those who miss out on higher education first time round aren't left behind. Real social mobility is about making sure you can always improve your lot in life, wherever you find

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<sup>56</sup> Lord Browne, *Securing a sustainable future for student finance*, 27.



yourself at a particular point in time. So those for whom the limit they think they can reach is an FE college, but subsequently realise that they can make it into higher education – we should make it easier for them to transfer across. Schemes like Aim Higher have made a good start – although they are by no means perfect – but we must think of more targeted, effective ways of helping people who otherwise might miss out on HE.

The benefits of a flexible HE system are illustrated clearly when one considers changes to paramedic qualifications. Becoming a paramedic used to combine a mixture of basic and on-the-job training. Now paramedics have to undertake a full or part-time degree over a period of two to five years. A care worker who decides to gain this degree part-time for example, instantly gains clinical skills, enhances their prospects and is more useful on call-outs.

## RESTORING THE VALUE OF DEGREES

The biggest prize is in raising the standards of our higher education sector across the board, so that everyone who works for it leaves university with a robust skill set and a quality degree. A degree isn't 'Mickey Mouse' because of the subject matter, it's 'Mickey Mouse' if it's taught to an incredibly low level. For example, Computer Games Design is often mocked as a 'Mickey Mouse' subject, but if you do it at Birmingham City they have industry accredited courses<sup>57</sup> with documented industry employment rates, and you'll most likely find yourself after university working in one of

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57 Industry accredited degrees make a big difference to job prospects – only 18% of graduates from un-accredited courses find jobs in the video games industry, compared with over 50% (three times as many) from industry-accredited courses, See Juan Mateos-Garcia (ed.), *Raise the game*, (London: National Endowment for Science, Technology and the Arts (NESTA), 2008), 10, <http://www.nesta.org.uk/library/documents/raise-the-game-report.pdf>.

the UK's world class industries. It doesn't matter if we're talking about English, law or media studies – what matters is the quality of the degree and the skills you gain from it.

Reforming the provision of higher education will help tailor the experience to the needs of the student, but central to raising standards is that the money follows the student. With the money following the student, universities will have to think carefully about where their students will come from, what they will offer those students and how much they will charge. As the Vice Chancellor of a leading university said to me recently, they will have to work out how they are going to stay competitive; if they're raising fees above £3,000 then they've got to work out if what they're offering is worth it. The University of Buckingham, one of the UK's only private universities and thus one which has to charge £8,640 for a degree to be financially viable, has been confronting this reality for years – it offers a two year university degree with student: staff ratios comparable to those at some of our most selective universities and has consistently topped the rankings tables for student satisfaction.

But if we're going to have a situation where the money follows the student – as variable fees for both different universities and different course suggests we may – then we need a framework which allows students to compare the offerings of different universities on which they can base their investment decision for higher education.

## THE INVESTMENT DECISION

It's clear to most of us that buying a house is a big investment decision – and we take it seriously – so why shouldn't something which arguably affects your life

chances more than this be taken at least as seriously? Getting that investment decision right is key to the whole process, especially now we're asking students to contribute more to their own education. And just as when you come to invest in a house, you have to have access to all the information when it comes to investing in your education.

There are many young people who don't have all the facts available to them when they make this decision - especially, but by no means exclusively, from poorer backgrounds. If you don't know the relative prestige of universities and their degrees, the salary rewards that come from going to a certain university or studying a certain degree, or even simply that tuition fees aren't paid up front, then making the right decision becomes much harder.

Getting the investment decision right is one of the most important judgements young people have to make. Studying the right subject at the right university can dramatically improve one's life chances in the long term. Fail to get this right and university could feel like a three year waste of time with no improvement in life prospects and potentially considerable debt to repay.

The Government understands that information matters when it comes to the investment decision, hence the requirement that universities and colleges publish a standard set of information about their performance, including contact hours, teaching patterns and employment outcomes.<sup>58</sup> But this is just the start. Currently teachers bear the brunt of the responsibility for careers advice, but this is

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58 David Willetts, Statement on higher education funding and student finance to the House of Commons, 3 November 2010, Parliamentary debates, Commons, col. 924-926, <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm101103/debtext/101103-0001.htm#10110358000955>.

surely not their core function. Nor can they be expected to keep up to date with all in the ins and outs of the developments on different courses and at different universities – including the detailed statistics on which industries graduates subsequently enter, and how much they get paid.

If we could open up all the data collected by universities and UCAS to the public, there may well be innovative non-governmental enterprises that spring up to use it – a MoneySupermarket.com for the higher education sector. Unless we really get to grips with the information side of the investment decision – and fully commit time and money to improving the current situation – higher tuition fees have the potential to seriously threaten to put people off university. We should remember too, that whilst this new information will no doubt be invaluable to those already shopping around for the university that suits them best, for many young people university doesn't even register on their radar: an independent Careers and Personal Development Advisory Service for all students could offer much needed guidance here.

Furthermore, the timing of such advice is crucial. Currently too many students decide on their university courses in sixth form, and some even change their minds during the clearing process just to get to any university in the scramble for places. It is also because the decisions are made so late in the process, and without the appropriate information, that we have situations where students wanting to study law at university are opting for law A Level

even though most universities do not rate it at all highly as a subject.<sup>59</sup>

The cultural environment surrounding universities at some institutions – especially private schools – means that they prepare their students from the age of 14. If there is no one at home or school to lift your horizons beyond the opportunities in your immediate environment, or provide the encouragement, insight and information needed for a successful university application, your perception of higher education – in contrast perhaps to your middle class peers – is that it is a risk rather than an opportunity.

Increased access to information does more than just show the student what's currently on offer. Transparency, together with diversity and choice, can force standards upwards. As students have more information upon which to base their choices, and have the power to forcefully make these choices by taking their money with them, universities will no longer be able to get away with a sub-standard provision of services.

## CONCLUSION

Taking our education as far as we can is something we should all aspire to. Tony Blair's target of 50% helped set out our stall – as an aspirational target it was an attempt make us take higher education seriously as a nation; an attempt to force us to accept that higher participation is good for our universities, our economy, and our future; and it may well have lifted the horizons of many young people and showed them that university could be for them too. But what is

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59 LSE has it on its publicly available "non-preferred" lists of subjects. See: <http://www2.lse.ac.uk/study/undergraduate/howToApply/lseEntryRequirements.aspx>.

incredibly unfair about the current system though is that for many of these people university is failing them. We can have mass participation in higher education for people from all backgrounds and a university experience that delivers for everyone. But to make this the transformative experience it ought to be, whilst also creating the highly skilled workforce that our economy needs, we may have to change our whole perception of universities and what they are for.



## CHAPTER FIVE: TOWARDS A CONSENSUS ON PENSIONS

RACHEL REEVES MP

Ever since the Beveridge Report and its implementation by Clement Atlee's Labour government in 1948, it has been accepted that it is the role of the state to provide a basic state pension for people in their retirement. As Beveridge said: "Any plan of Social Security worthy of its name must ensure that every citizen ... can claim as of right when he is past work an income adequate to maintain him". And he was right. It is the responsibility of society to support people in old age, but it is also imperative that while in work, employers and employees put something aside for retirement as well. Increasing longevity creates huge opportunities for people and society but it also means that pension policy and provision for retirement is more important than ever.

Right now, we stand at an important junction in the road to pension reform. The Labour government from 1997 - 2010 made huge achievements, not only in addressing the challenge of pensioner poverty, but in addressing the pension problems of the future too. With a change of government, the momentum on both of these must not be lost and progress must not be allowed to unravel. Thus, the challenge for the current government is to implement Labour's plans for pension reforms and to take them to the next level. It is our role in opposition – and mine as the Shadow Minister with responsibility for pensions – to ensure this happens while maintaining cross-interest, cross-party consensus.

## THE BEVERIDGE REPORT

Before getting to the key focus of this essay – the future – I want to start by reflecting briefly on the past, for it is only by fully understanding the past that we can understand what challenges lie ahead. The first contributory benefits scheme emerged in the Widows, Orphans and Old Age Contributory Pensions Act 1925. But as this scheme was not universal, it was not until Beveridge's report *Social Insurance and Allied Services* in 1942 that the beginning of universal coverage based on a social insurance model began.

The Beveridge Report proposed that all people of working age should pay a weekly national insurance contribution. In return, benefits would be paid to people who were sick, unemployed, retired or widowed. Beveridge argued that this system would provide a minimum standard of living "below which no one should be allowed to fall". Despite sixty years of subsequent pensions legislation – some of it very radical and innovative in its own right – the framework and principles of Beveridge are still cited as the fundamentals of current social policies (and problems).

As with future reforms, the introduction of the Basic State Pension in 1948 was subject to the economic and political realities of the day. Clement Atlee recognised that as radical and progressive as the plans in the Beveridge Report were, they did not provide for existing pensioners – a generation that had lived through the Great Depression and two world wars. The post war fiscal situation made it impossible to achieve both a fully funded scheme and support for current pensioners simultaneously. So instead of a funded system, a 'pay as you go' system was introduced. Although there was no other palatable option at the time, this decision means we are in a position where we have



unfunded liabilities and the current system is in real need of reform to accommodate an ageing population and inadequate savings.

## PROGRESS ON PENSIONS

The core challenges of the Basic State Pension, pensioner poverty and encouraging savings among working age people have not gone away – and have worsened during certain points in history. When Labour came to power in 1997, 29% of pensioners were living in poverty<sup>60</sup> and the state pension had declined from 20% of average male earnings in 1979 to 14% in 1997.<sup>61</sup>

Between 1997 and 2010, Labour made real progress of which I am incredibly proud. 1.1 million pensioners were lifted out of poverty and pensioner incomes have grown faster than average earnings across the economy as a whole - net income for pensioners has grown in real terms by 28% since 1998-99, compared to real average earnings growth of about 12% over the same period.<sup>62</sup> And no pensioner now has to live on less than £132.60 per week (compared to £69 per week in 1997).<sup>63</sup> The winter fuel allowance, alongside free off-peak travel on local buses, free TV licenses for the over 75s and increased tax thresholds to ensure that 60% of pensioners do not pay any income tax have all made a huge impact on the lives of pensioners. In my constituency of Leeds West, where average incomes are around £18,000

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60 House of Commons Work and Pensions select committee, *Tackling pensioner poverty: Fifth report of session 2008-09*, (London: House of Commons, 2009), 11.

61 Sarah Tanner, "The dynamics of male retirement behaviour", *Fiscal studies* 19 (1998), 175-196.

62 Department for Work and Pensions, *The pensioner income series 2008-2009*, (London: DWP, 2010).

63 National pensioners convention (NPC), "Pensioners and the manifesto promise", (NPC: 2010).

these reforms have made a massive difference and there are nearly 2,500 pensioners receiving Pension Credit to ensure a guaranteed level of income.<sup>64</sup>

Labour also introduced the Pension Protection Fund (PPF), which ensures that workers receive compensation in respect of the pension to which they were entitled after the collapse of an employer. The MG Rover pension scheme, which was wound up when the Midlands car maker failed two years ago, had 6,228 members and the PPF ensured that most scheme members receive 90% of their benefits, while those who retired before the company went bust will get 100%. The PPF estimated that the proportion of pensions protected would otherwise have been around 66%.<sup>65</sup>

But while addressing the immediate challenges was necessary, it was not sufficient. That is why the last Labour government also set about addressing the longer-term pension problem of an ageing population and inadequate savings provisions amongst the working-age. In 2002 Tony Blair established the Pensions Commission, which produced the Turner Report, setting out recommendations aimed at improving – and making sustainable – pension provision for the future. The consensus that was built up as part of the Pensions Commission’s process was – and still is – key to the successful implementation of its far-reaching recommendations.

Turner’s proposals were taken forward in the Pensions Acts of 2007 and 2008, and if implemented correctly, these changes will extend pension saving to millions of people

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64 HMRC, “Income and tax by parliamentary constituency, 2007-08”, (London: HMRC, 2010)

65 Simon Moon, “MG Rover pensions rescued”, *thisismoney.co.uk*, March 26, 2007, [http://www.thisismoney.co.uk/pensions/article.html?in\\_article\\_id=418809&in\\_page\\_id=6](http://www.thisismoney.co.uk/pensions/article.html?in_article_id=418809&in_page_id=6).

who previously did not save for their retirement and tackle the UK's pensions challenge with an ageing population and insufficient savings. This is necessary now more than ever – even since the Turner Review in 2004, the proportion of the population saving for a pension has dropped from 53 to 44%.<sup>66</sup>

## LOOKING FORWARD

So where do we go from here, and perhaps more importantly, how can we ensure that the momentum for reform started by the last government is not lost?

It is part of Labour's role in opposition to scrutinise every measure taken by government that affects existing pensioners' incomes and standard of living. And in many areas the government is doing the right thing. I fully support the linking of the Basic State Pension to earnings as Labour committed to from 2012. And I am relieved that, for now, the Winter Fuel Allowance was maintained for all and no changes have been made to free bus passes or free TV licences for the over 75s.

But while I support the measures that protect pensions, you do not have to dig much to realise that all may not be as it seems. One of the single biggest changes for pensioners – the impact of which has perhaps not yet been fully comprehended – will be the switch of uprating pension benefits from the Retail Price Index (RPI) to Consumer Price Index (CPI) (the former of which is on average 0.75 percentage points higher). Initial analysis from the Office for Budget Responsibility forecasts that a benefit

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66 National Association of Pension Funds, "Making auto-enrolment work: The NAPF submission to the government's review of the 2012 pension reforms", (NAPF: 2010).

worth £100 in 2009 would be worth £122 in 2016 if up-rated with the RPI but £114 if up-rated with the CPI.<sup>67</sup> The net effect therefore of the combination of increasing the Basic State Pension by the 'triple-lock' but increasing for example the Second State Pension and Disability Living Allowance by CPI instead of RPI will mean many pensioners will lose out. Moreover, for those millions of members of occupational pension schemes which are aligned with the government measure of inflation, the loss of pension income will be much greater.

When you add in the impact of the cuts to social care, which it has been estimated will hit older pensioners by an estimated £1,200 per year (or 7.2% of household income)<sup>68</sup> and the increase in VAT which is estimated to hit single pensioners by an extra £125 a year and pensioner couples by around £275 a year, and not forgetting the freeze in the savings element of the pension credit, the picture becomes worse.<sup>69</sup> The Institute for Fiscal Studies have estimated that, taking into account all changes, the average pensioner household will be worse off by approximately £240 next year, and by £367 a year by 2014.<sup>70</sup>

This government must not be allowed to threaten a decent standard of living for people in retirement, and we must assess the impact of all these changes as a whole. Pensioners deserve dignity and security in retirement.

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67 Daniel Harari, "Economic indicators", Commons library research paper (House of Commons library: 2010).

68 Howard Reed and Tim Horton, *How the Government's planned cuts will affect older people*, Report for Age UK, 2010.

69 Anthony Seely, "VAT: the new 20% standard rate", House of Commons library briefing paper, (House of Commons library: 2010).

70 James Browne, "Average losses for pensioner households from tax and benefit changes to be introduced between January 2011 and April 2014" (Institute for Fiscal Studies), [http://www.ifs.org.uk/docs/taxben\\_pensioners\\_2011\\_2014.pdf](http://www.ifs.org.uk/docs/taxben_pensioners_2011_2014.pdf).



## STATE PENSION AGE

One of the Turner Report's recommendations was to increase the State Pension Age to reflect increasing life expectancy. A timetable was set out in 2007 detailing a staged increase for women to 65 in 2020, followed by an increase for both men and women to 66 by 2026 (followed by 67 by 2036 and 68 by 2046). The Turner Report also recommended that this timetable be kept under review. But in the 2010 Spending Review, the government set out plans to bring forward the acceleration of the State Pension Age for women and to age 66 by 2020.

While we accept there is a strong rationale for increasing the State Pension Age, there are particular groups of people approaching retirement that will be disproportionately affected by the government's accelerated timetable with very little time to plan for the future. Women born in and around 1954 will see the age at which they get the Basic State Pension increase at a faster rate than planned, and a faster rate than set out in the Coalition Agreement.<sup>71</sup> Of 500,000 who will have to wait more than a year to collect their state pension, 33,000 women will have to wait an extra two years to collect their pension,<sup>72</sup> losing more than £10,000 if on the basic state pension, and £15,000 if on full pension credit. Moreover, many of the women affected are already working part time, have low pension savings and caring responsibilities.

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71 The Coalition Agreement states that the state pension age will not begin to rise to 66 sooner than 2020 for women. HM Government, *The coalition: our programme for government* (London: HMSO, 2010), 26.

72 House of Commons, Government answer to written parliamentary question, January 21, 2011, column 1016W.

According to the government's own impact assessments, low income men and women born in 1954 will lose up to 10% of their total lifetime pension, compared with around 4% for those on medium and high incomes.<sup>73</sup> These differences are due to the rise in the minimum qualifying age for the Pension Credit, which will rise in line with women's state pension age and because of the lower life expectancy of low income groups, depriving men and women on the lowest pensions.

While Labour does not support the speed of these changes and will oppose them in Parliament, we do know that it is important to deal with increasing life expectancy. When they bring the changes in, we need to know what the Government will be doing to support workers working longer and companies keeping workers on for longer. The reality is that 45% of men aged 60-64 are either unemployed or inactive.<sup>74</sup> A lot more is needed to ensure that those affected by the increase in the State Pension Age will have the support to work, and that jobs will be available.

## AUTO-ENROLMENT

Stemming from the Turner Report is the policy of auto-enrolling workers into workplace pension schemes as legislated for by Labour in 2007, for introduction from 2012. Auto-enrolment is aimed at addressing the low and falling level of pension provision: while many people are aware of the need to save for a retirement income, a range of factors including inertia and myopia means that they do not. As the Department for Work and Pensions put it, automatic

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73 Department for Work and Pensions, *A sustainable state pension: when the state pension age will increase to 66*, (DWP: 2010), 32-75.

74 Department for Work and Pensions, *A sustainable state pension*, 64.

enrolment 'nudges' people into saving for a pension, and will help up to ten million people save for retirement.

In June 2010, the new Government commissioned a review into *Making Auto-Enrolment Work* which was to consider how best to take auto-enrolment forward. The results of the review were published in October 2010 and the government agreed to continue with Labour's policy – and I enthusiastically welcome that.

But they did two things that will mean fewer people will qualify. They raised the qualifying earnings threshold to £7,500 a year (from around £5,000, in line with increases to the tax threshold) – a move which is disappointing, and as the government's own analysis suggests, will exclude up to one million women in low paid and part time jobs.<sup>75</sup> If the tax threshold increases to £10,000 as the government envisages, even more people will lose out on the chance to save.

The Government also introduced a three month waiting period before employers are required to enrol their employees into workplace schemes. While of course the auto-enrolment process has to be implemented in a way that minimises unnecessary burdens on employers, this risks excluding workers who move jobs frequently and could raise opt-out rates as people are far more likely to be concerned by the reduction in their income when the contributions start being deducted after three months of pay at a higher level.

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75 House of Commons, Government answer to written parliamentary question, October 25, 2010, column 161W.

The overall direction of travel by government in supporting auto-enrolment will improve the incomes of future generations of pensioners, but I am concerned that certain groups will not benefit from changes that could have made a huge difference to their retirement income.

## **MERGING PENSIONER BENEFIT**

One thing everyone supports is simplification. Government plans for a single state pension were revealed in October 2010, suggesting a universal flat rate pension payment of £140 per week, but without any formal announcement or actual proposals. Since then there have been no further announcements, and it seems that the proposal is on hold. Moves to simplify the system could have substantial benefits, and in principle we would support such moves. But there are some questions to be addressed about the changes to the contributory system, which was at the very heart of Beveridge's original proposals for the Basic State Pension set out in 1942. If you pay in you should get something out.

There are also questions to be addressed as to the affordability of such a scheme, particularly if we are to avoid creating a 'two-tier' system for existing and future pensioners – the very stumbling block that Attlee came up against. As the delays show, the devil is unquestionably in the detail and there are fundamental issues that need to be analysed and debated if we are to build a fair system.

## **THE FUTURE OF PENSIONS**

As Beveridge recognised, the mark of a decent society is the way in which it treats those in retirement. But reform must continue.



For today's pensioners, I welcome that this Government has committed to the restoration of the earnings link for the Basic State Pension, and I welcome the maintenance of universal benefits such as the Winter Fuel Allowance and the Free Bus Pass. But I have real concerns about the accelerated freezing of Pension Credit and the uprating of other benefits by CPI instead of RPI. I am pleased that the government are pushing forward with some reforms, but am concerned at some of the 'watering down' around auto-enrolment, and the impact on women of the increase in the state pension age.

As a responsible opposition and as an effective Shadow Pensions Minister, I will ensure that no stone will go unturned in revealing the true impact on pensioners today and in the future of spending and benefit cuts.

The last Labour Government tried to build a cross-party, cross-interest consensus based on the Turner Report. Such a consensus is hard won but easily lost. Yet, consensus is essential for building the sustainable change that is necessary in an issue as complex as pensions reform if we are to improve the incomes and living standards of pensioners today and in the future. It is disappointing that this government are using the mantra of deficit reduction to erode the consensus, and reduce the support and certainty that pensioners today and in the future require.

## CHAPTER SIX: A NEW ECONOMIC SETTLEMENT

DUNCAN HAMES MP

The recent recession was the sharpest and deepest in recent memory, far from the mythical end to cycles of boom and bust heralded over the previous decade. This is a good time to examine how we're doing, what we're doing, and most importantly why. The recession was not just about the greed of a few, but also about a structural vulnerability in our economy – its reliance on the bubble mentality of growth. We must now learn the lessons of this abrupt stalling of the economy and make tentative steps towards rebuilding the economy on new foundations.

This is not simply the commonplace assertion that we ought not to let a casino in the City provide the wealth of the nation. Given environmental and practical limits, there are choices to be made about how we spend what we *do* have. We have to constrain public expenditure without driving up unemployment, whilst at the same time seeking to instil values in our economic choices.

The public and policymakers are now increasingly alive to the environmental limits we face: loss of biodiversity, peak oil, and man-made climate change. If we are to avoid devastating future scarcities of water, fuel and food, we need to start to change the way we live and work now. Ours is a finite world, and nothing can expand forever in a finite frame. For some, however, the proximate experience of recession makes this physical law fade into the background, or at least take a poor second place. People are less likely to care about peak oil if they have no job to drive to. The desperation to reverse the downturn is tempting us back to economic growth as we have known it, and we are losing sight of urgent environmental issues.

We face three linked problems, each caused at least in part by the pursuit of growth and all brought into sharper focus by recession: public spending is under severe restraint, threatening jobs and services; our treadmill economy has at best a questionable effect on people's ability to flourish and live well; and all the while, the planet's finite resources are being depleted at an unsustainable rate.

## THE PROBLEMS WITH FIXATING ON GROWTH

A lively debate has emerged about whether growth-fixating market economies truly serve the interests of their people. Professor Tim Jackson's *Prosperity Without Growth* sets out to revolutionise our attitude to economic growth.<sup>76</sup> He argues not only that continuing growth is unsustainable within environmental limits, but also that the higher incomes it generates do not, in their turn, deliver meaningful choices or richer lives. Richard Wilkinson and Kate Pickett's *The Spirit Level* makes the case that societies experience health and social problems in proportion to their income distribution: the more unequal the society, the worse its problems.<sup>77</sup>

These perspectives are relevant to any attempt to integrate ideas of sustainability with economic policy in our present predicament. By some important indicators – mental illness,<sup>78</sup> stress,<sup>79</sup> social cohesion<sup>80</sup> – life in Britain has

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76 Tim Jackson, *Prosperity without growth – the transition to a sustainable economy*, (Sustainable Development Commission: 2009).

77 Richard Wilkinson and Kate Pickett, *The spirit level*, (London: Allen Lane, 2009).

78 Office of National Statistics, *Better or worse: a longitudinal study of the mental health of adults living in private households in Great Britain*, (London: Office for National Statistics, 2003).

79 Melanie Carder, Susan Turner, Roseanne McNamee, Raymond Agius, "Work-related mental ill-health and 'stress' in the UK (2002-2005)", *Occupational medicine* 59: 8, (2009), 539-544.

not improved in line with economic growth. By the most commonly used measure of life satisfaction, wellbeing in Britain has remained static over the last 33 years, whilst Gross Domestic Product (GDP) has nearly doubled.<sup>81</sup> Worldwide comparative data indicates that beyond a level of around \$15,000 per year, extra income has little improving effect on a person's well-being.<sup>82</sup>

Despite this, British employees are accustomed to working amongst the longest hours in Western Europe.<sup>83</sup> The cost of this culture can be felt in the strain on our health and, more broadly, our social fabric. Long hours are linked not only to increased risk of mental illness and heart disease, but to reliance on alcohol and chronic loneliness.<sup>84</sup>

Almost every working person knows their salary or their hourly rate. Some can even express it as a fraction of the cost of hiring a plumber. Our time outside work lacks similar recognition in the choices we make. The performance management of our economy ignores time that is not marketed as labour. By subscribing to this orthodoxy, policymakers wash their hands of the consequent erosion of family and community life. It is socially and environmentally unsustainable to live this way – to live for work and pay alone.

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80 Mark Easton, "Life in UK 'has become lonelier'", BBC News, 1st December, 2008, <http://news.bbc.co.uk/1/hi/uk/7755641.stm>.

81 Thomas Evans, "There's more to life than GDP but how can we measure it?", *Economic and Labour Market Review*, 4:9, (2010).

82 Worldwatch Institute, "State of the world 2008", cited and redrawn in Jackson, *Prosperity without growth*.

83 Organisation for Economic Co-operation and Development, "Employment outlook, July 2010", (OECD: 2010)

84 BBC News "Long hours link to dementia risk", BBC News, February 25, 2009, <http://news.bbc.co.uk/1/hi/7909464.stm>; BBC News, "Long working hours health risk", BBC News, August 17, 2005, <http://news.bbc.co.uk/1/hi/health/4160358.stm> ; Faculty of Public Health, "Mental Health and Work", (FPH: 2007).

At the individual level, it can be easy to see the absurdities that growth mania can produce. Say, for instance, you are presented with the choice between a one-in-five chance of losing your job entirely and a 100% chance stopping a fifth of it. You may likely grab the one-in-five chance, in the hope of keeping your job, protecting your income and shoring up your status. But that would be a deliberate choice to deny yourself extra time for life – 50% more weekend, if you like – and for what? To earn the money to meet an appetite for consumption, to cram in the goods, services and highly-engineered leisure experiences which purport to alleviate the burnout of working lives? This is earning money to buy things to offset the stress of the time you spend earning money to buy things, and it is maddeningly circular – not to mention unsustainable. If we recognise the diminishing marginal benefit of income, we may eventually choose to use what hours we have in our lives to break out of this holding pattern and do something more fulfilling.

If we're serious about what sustainability means, we do need to challenge certain orthodoxies surrounding the way our economy is organised. In the public policy arena, especially in the present downturn, we are constantly urged to spend more, work more, make more and consume more: not because this cycle has intrinsic value, but because these are the gears of growth, upon whose grinding – it's claimed – our future prosperity depends.

## **THE BENEFITS OF TIME OUTSIDE WORK**

In contrast to the lack of fulfilment derived from additional paid work, a great deal of research indicates that well-being, mental health and self-esteem are all improved by voluntary

work.<sup>85</sup> As well as these outcomes for individuals, voluntary organisations can themselves benefit from having access to skilled people of working age. The question for us, then, to rebalance society and the economy, is how to facilitate and promote the time people spend away from their jobs, contributing to their communities.

Government should recognise people's contribution of their time to socially beneficial action outside work. I'm looking for government to signal that volunteering is mainstream, worthwhile and appreciated. Tax breaks for employers and employees could play a part in establishing this policy – but the long-term goal is a broader cultural change in the way we use and value our time.

## SHARING WORK MORE EQUALLY

One way to minimise public sector job losses while driving down government spending is to share work more equally. The public sector workforce is set to be reduced in order to make public services affordable. However, would it not be better in many areas to scale back the working hours of a larger number of employees rather than to cause widespread redundancies? Take, for example, a 20% cut in a full-time employee's hours and pay – one day a week. The employee would retain a permanent job with career prospects, thus remaining engaged in the workplace, but spending one day a week out of the workforce. This outcome is helpful to employment levels and avoids the need to pay unemployment benefits. It also prevents – as

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85 Natalie Low, Sarah Butt, Angela Ellis Paine and Justin Davis Smith, *Helping out: a national survey of volunteering and charitable giving*, (London: HMSO, 2007); David Mellor, Yoko Hayashi, Mark Stokes, Lucy Firth, Lucy Lake, Michael Staples, Sue Chambers and Robert Cummins, "Volunteering and its relationship with personal and neighborhood well-being", *Nonprofit and Voluntary Sector Quarterly* (1) 2008.

far as possible in the circumstances – loss of skills from the sector. For every four full-time employees able to cut their hours by a day a week, a fifth who would otherwise face redundancy could do the same and keep their job. With jobs scarce, a more even distribution of working hours would be good for those seeking employment too.

There are many examples of this approach in the private sector, temporarily reducing the scale of the workforce while business is slow, rather than laying them off. In the depths of recession in February 2009, Honda closed its UK plant in Swindon for four months, sending home around 2,500 staff for two months at full basic pay and at 60% for the remainder. Alongside the shutdown, a voluntary redundancy scheme was taken up by 1,300 employees. Upon returning to work, Honda staff worked unpaid overtime to cover the amount they had been paid during the hiatus. There were no compulsory job losses.<sup>86</sup> Similarly, Jaguar Land Rover gave 300 staff three-month breaks at 80% pay.<sup>87</sup> Accountancy firms Deloitte, PricewaterhouseCoopers and KPMG have all offered similar programmes since summer 2008, offering four-day weeks or sabbaticals of between one and three months.<sup>88</sup> Telecoms firm BT offered staff 25% of pay in return for taking a long holiday of up to a year off work.<sup>89</sup>

When government has promoted the concept of flexible labour in the past, it has often been to give private sector

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86 BBC News, "Honda's production line restarts", *BBC News*, June 1, 2009, <http://news.bbc.co.uk/1/hi/england/wiltshire/8076430.stm>.

87 People Management, "Jaguar does roaring trade in sabbaticals", *People Management*, January 15, 2009, <http://www.peoplemanagement.co.uk/pm/articles/2009/01/jaguar-does-roaring-trade-in-sabbaticals.htm>.

88 Deloitte, "Deloitte offers voluntary sabbatical program to employees", *Deloitte.com*, 2009.

89 BBC News, "BT offers holidays for pay cuts", *BBC News*, July 4, 2009, <http://news.bbc.co.uk/1/hi/business/8134123.stm>.

employers greater ability to hire and fire. Even outside a recession, we should welcome a situation in which employers – including the state – are more flexible in the hours they ask of employees. It should be possible to allow staff to work four days a week and still develop their job into a fulfilling career, albeit at a commensurately slower pace. We have seen hints of this approach in the private sector, as reactions to economic emergency, rather than flexibility towards employees' time as a principle. The current spending squeeze presents the public sector with the opportunity to take the lead on reinforcing a culture of flexible working to suit the workers too. The demand is there: research tells us that the two most common reasons people stop volunteering are work commitments and a lack of spare time, but also that over half of workers would like to see a volunteering or giving scheme established by their employer.<sup>90</sup>

## SUPPORTING VOLUNTEERING

The right to request flexible working is already guaranteed by law to parents of children under 17 years old, to parents of disabled children under 18 and to carers of certain vulnerable adults. Employers must seriously consider all applications, and may only reject them if there are sound business reasons for doing so. The Coalition Government's commitment to make this right universal is a good start, and one which I warmly welcome.<sup>91</sup> However, if flexible working is accepted as a good idea in principle, we can surely go further.

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90 Low et al., *Helping out*.

91 Ed Davey quoted in Liberal Democrats, "Lib Dem minister sets out plans to extend flexible working rights", Liberal Democrats website, September 30, 2010, [http://www.libdems.org.uk/news\\_detail.aspx?title=Lib\\_Dem\\_minister\\_sets\\_out\\_plans\\_to\\_extend\\_flexible\\_working\\_rights&PK=925a2e77-e403-4d7d-8dc6-b9fce766a4cb](http://www.libdems.org.uk/news_detail.aspx?title=Lib_Dem_minister_sets_out_plans_to_extend_flexible_working_rights&PK=925a2e77-e403-4d7d-8dc6-b9fce766a4cb).



Another way government can recognise people's contributions to socially beneficial schemes outside work is through the tax system. Employers who make arrangements for their staff to engage in social action in paid time could have their applicable employers' National Insurance contributions paid by the government. Employees who reduce their hours to make a regular commitment to volunteer could be offered an income tax rebate. Imagine you could tax the government for the contribution you make to society as a volunteer! Let us take the earlier example where a job loss was avoided by five people scaling back their hours by a day a week. The saving in Job Seekers Allowance alone could fund a tax rebate equivalent to a basic rate tax on any hours switched to volunteering at a notional near-minimum wage. £500 off your annual tax bill isn't easily missed, although the point is not to pay people to volunteer. It is rather to show the employee that their decision is valued and respected for the benefits it brings to society. Such a measure would require a guarantee that participating employees would not be discriminated against, and their jobs would be no less secure. Qualifying voluntary roles and organisations would of course need to provide government with some basic assurances to maintain taxpayer confidence. It would nonetheless be a welcome innovation.

I see practical steps like this as a means to foster a broader cultural change. Although a small measure which could be contained within budget constraints, it reflects a more human view of the economy. It acknowledges the reality that we have to be willing to challenge some fundamental priorities in our society.

## TIME TO SUSTAIN OUR ENVIRONMENT

The correlation between GDP growth and carbon emissions is bringing us hard up against the limits of the planet, and we are feeling the effects of climate change, oil dependency and increasing resource scarcities. Technology can go some way to offsetting our emissions, but it is no panacea: if growth is to continue and we are to achieve the United Nations Convention on Climate Change target of 450ppm carbon emissions stabilization by 2050, technological efficiency will have to improve at a rate ten times faster than it is doing today.<sup>92</sup> Without a conveyor belt of truly world-changing inventions, technology alone cannot decouple growth from emissions and irreparable damage to our planet. We need to find a path to an alternative, sustainable prosperity.

The current economic model cannot be tweaked into becoming sustainable – we either have to make our economy work differently and change the way we live, or deny the rest of the world even the possibility of our standard of living. Sustainability in this sense is not just about travelling by train instead of plane or reining in food miles – it’s about rejecting a commercial pressure to always pursue greater consumption as a way of improving our standard of living. The way we chase growth to maintain our consumption habits is inconsistent with what we say about international development, fearing developing nations doing just as we did. If the earth’s projected nine billion people are to achieve EU-level incomes by 2050, then average carbon intensity of each unit of economic activity will need to be fifty-five times lower than today.<sup>93</sup> We simply

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92 Jackson, *Prosperity without growth*, 54.

93 *Ibid.*, 55.



aren't going to manage to respect those environmental limits – even if we want to – if we continue to require our economy to create an appetite for consumption, then produce to satisfy it. Bumping up against those limits instead will be more painful than recession, taking the lives of our world's most vulnerable people.

The choice for people to adopt a sustainable life is more likely to become mainstream if, rather than being an enforced sacrifice, it is a positive and deliberate decision to live better lives. It is essential to start thinking about how we can get off this road to destruction.

## CONCLUSION

The recession should have shocked us into looking for better choices and a more attractive, sustainable way of organising our lives. Increased flexibility in working hours is one small example of that transition. It is a policy prescription consistent with the idea that we should be living more sustainably. It is also consistent with the economic circumstances in which we find ourselves and the need to constrain public spending whilst protecting employment. Above all, it's a policy that prompts us to value the whole of our time.

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