THE PURPLE PAPERS

REAL CHANGE FOR BRITAIN, REAL CHOICES FOR LABOUR

Graeme Cooke
Patrick Diamond
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October 2012

Progress
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1. Introduction

– **Robert Philpot**

The aftermath of the financial crisis can hardly be said to have ushered in a golden era for European social democracy. Throughout the continent, centre-left parties have struggled to present a plausible alternative to the right's message of belt-tightening and budget-balancing and have paid a harsh electoral price.

The election of Helle Thorning-Schmidt's social democrats in Denmark last October and of François Hollande in France six months ago were notable exceptions. The fate of both, though, should be at the forefront of Ed Miliband's mind as he builds on Labour's growing momentum.

Six months after its election victory, Thorning-Schmidt's party had plummeted to 16 per cent in the polls, the social democrats' lowest ratings in a century. In France, Hollande has seen the sharpest decline in popularity of any newly elected president in the history of the fifth republic. Hollande's socialist deputies and their Green allies are in revolt against the president's request that they approve the European fiscal pact he vowed to renegotiate. The Red-Green Alliance, which formed part of the electoral bloc that brought Thorning-Schmidt to power, are up in arms at the prime minister's tight fiscal policy and centrist welfare reforms. While the fate of neither government is by any means sealed, both Hollande and Thorning-Schmidt are suffering from a failure to prepare the voters prior to coming to office for the tough decisions they would have to take.

The challenges of 2015 and beyond

It is safe to predict that the challenges an incoming Labour government would face in 2015 are akin to, if not greater than, those the left faced in Denmark and France. As Nick Pearce, director of IPPR, and Gavin Kelly, chief executive of the Resolution Foundation, suggested recently,[1] if the structural deficit is to be eliminated over the next five years, and health and overseas development to keep their protected status, other departments face cuts of six per cent a year. 'Simply to keep the average rate of public service cuts to its current annual pace of 2.3 per cent would require £10bn a year of extra welfare cuts or tax rises by 2016-17,' they warned. All of this, meanwhile, assumes that the NHS can stagger through to 2017 with no real increases in spending (despite historic increases of four per cent a year) and that defence spending continues to drop. And, moreover, these calculations are based on overly optimistic growth and fiscal forecasts by the Office for Budget Responsibility which are likely to be revised downwards later this year.

But, said Pearce and Kelly, beyond the immediate challenge of closing the deficit, Britain faces a 'long-term fiscal black hole': between 2018 and 2030, for instance, meeting the costs of our ageing population will add 1.5 per cent of GDP to public spending; by 2060 it will add five per cent to the NHS budget alone.

The brutal reality, therefore, is that Britain does not face a once-in-a-generation Herculean task to balance its books: the coalition may have missed its self-imposed 2015 target to eliminate the deficit, thereby threatening to extend the 'era of austerity' into

1. Gavin Kelly and Nick Pearce, 'Politicians cannot hide from UK finances', Financial Times, 26 September 2012.

the next parliament, but with tax revenues remaining broadly flat and spending on health, social care and pensions rising, Britain is predicted[2] to slip back into deficit by 2030. Indeed, the OBR's projections of the long-term state of the public finances (which assume that economic growth is steady and that current policy does not change over the next 50 years) suggest that demographic change will cause public spending to begin rising again from the early 2020s. With the government borrowing to fill the gap between that rising spending and flat incoming revenue, the OBR suggests Britain's public sector debt would increase to almost 90 per cent of GDP by 2061, up from a pre-recession level of 40 per cent.

And while some long-term demographic changes are relatively easy to predict, others are not: the state of the economy and long-term growth rates, advances in health and medicine, the productivity of the public sector, technological innovation and behavioural change all affect the state of the public finances.[3]

Not only are the short-, medium- and long-term challenges facing an incoming Labour government potentially huge, the environment will, self-evidently, be very different from that which the party faced when it returned to government in 1997. It is, of course, true that Labour inherited a mountain of social and economic problems – most particularly, chronic under-investment in Britain's public services and infrastructure, and high rates of long-term unemployment – left unattended by 18 years of Tory government. And while it also inherited a growing economy, the Tories also bequeathed high levels of debt which Labour paid down during its time in office. That said, the public finances were not as weak as Britain's are likely to be in 2015.

Despite the fiscal strait-jacket the party imposed upon itself by accepting Kenneth Clarke's self-described 'eye-wateringly tight'

2. Rick Muir (2012), 'The long view: Public services and public spending in 2030', London: Institute for Public Policy Research.

3. Muir, ibid.

spending plans for the first two years of its time in power, public spending rose by an average of 3.4 per cent a year in real terms between 1997 and 2010. By contrast, it had averaged 1.6 per cent growth a year between 1979 and 1997. Health and education spending rose particularly sharply: the former by 6.3 per cent a year – double its previous growth under the Conservatives – so that it constituted eight per cent of GDP by 2010; the latter by one-third during Labour's time in office to six per cent of GDP by 2010.

An incoming Labour government in 2015 will not be able to countenance such increases in spending. Instead, the challenge of closing the deficit and tackling some of the long-term fiscal pressures the country faces will require some tough choices and radical thinking.

The alternatives on offer

In their recent report Pressures and Priorities: The long-term outlook for Britain's public finances, Kayte Lawton and Amna Silim of IPPR[4] outlined four broad approaches that politicians could adopt if the country is to avoid that 'long-term fiscal black hole':

- Raise the long-term rate of growth and the employment rate;
- increase tax revenues;
- identify priorities for public spending;
- and reform public services.

The Purple Papers: Real Change for Britain, Real Choices for Labour aim to begin a debate among party members at the grassroots about some of these options and the decisions Labour will have to take as it begins to think ahead to its manifesto in 2015. This publication, which will be accompanied by a series of

4. Kayte Lawton and Amna Silim (2012), 'Pressures and Priorities: The long-term outlook for Britain's public finances', London: Institute for Public Policy Research.

Westminster seminars and regional debates over the next nine months, builds on the argument of last year's Purple Book. It argued for a redistribution of power in the state, market and our public services, and for Labour to turn its back on the 'big state'.

The economy

In his paper on the economy, Steve Van Riel tackles the question of **raising the growth rate**. He outlines a number of challenges faced by the UK economy. First, the fiscal ones outlined above. By 2015, for 13 years in a row, the British state will have spent more than it raised in taxes, leaving it with interest payments on the UK's debt of £60bn a year, twice the size of the tax credit budget.

> "By 2015, for 13 years in a row, the British state will have spent more than it raised in taxes"

Second, there will be the socioeconomic legacy of five years of Tory neglect: the Institute for Fiscal Studies predicts that the number of children living in poverty will have risen from 2.5 million when Labour left office to 2.9 million.

Third, there is the increasing pressure of globalisation, with China and other emerging economies planning to move up the 'value chain' – particularly in manufacturing – rather than simply competing for the kind of low-skill, low-wage jobs that most western governments have long resigned themselves to losing.

We know that a return to growth will help to ease these challenges, but how much risk will the next Labour government be willing to take in order to attain it? Take, for instance, the question of bank lending. The simplest way to reduce risk in the financial services sector is for the banks to repair their balance sheets by lending less money and, in particular, lending less money to more risky propositions. However, as Van Riel notes, those riskier projects are likely to be those – helping would-be first-time buyers and struggling entrepreneurs – that we are most sympathetic to.

Similarly, the need for a modern industrial policy is one that all parties claim to support. However necessary, such a policy is not without risks. Tax credits to targeted industries can prove wasteful if those industries were going to grow anyway, for instance.

Fiscal policy is another area where there are difficult decisions over our attitude towards risk. Reducing debt may make the economy more resilient, increase government's ability to implement a short-term Keynesian stimulus in a downturn, and help to cut the amount of money we waste on debt interest payments. But money spent paying down debt is money that is not invested in public services, reducing poverty or cutting taxes for low- and middle-income families.

Van Riel also touches on the question of **raising tax revenues** when he asks: 'how much do we ask of the people we like?' Here he suggests we confront the question of how much Labour is willing to ask of those who are more deserving of its sympathy than the 'tax evaders or benefits cheats' that we all agree should be cracked down upon. 'Increases in the cost of living are the last thing people want right now,' he writes. 'Higher taxes mean people have to work for longer for the same standard of living – when the last Labour government was actually trying to help people who wanted to shift their work-life balance in favour of their family commitments.'

Welfare reform

Graeme Cooke's paper on welfare directly addresses the challenge of **raising the employment rate**. He reminds us of Labour's achievements in office – before the financial crisis employment topped 74 per cent, among the highest in the Organisation for

Economic Cooperation and Development – but also some of its weaknesses. 'Given the length of sustained growth in output and employment, it must count as a major disappointment that the number of people on out-of-work benefits never dropped below four million,' he argues. The failure, for instance, to reform incapacity benefit when employment was expanding was a particular error.

If Labour wins in 2015, however, it will face a very different context to that of the late 1990s. Despite high unemployment, raising the employment rate will be key to bolstering the public finances and improving living standards, especially given the limited opportunities for greater redistribution. The political backdrop will be one of populist Tory attacks on welfare, tapping into public scepticism about how fair the system is to those who have – and, indeed, have not – contributed to it. Cooke thus advocates a 'a pro-jobs employment policy; a pro-jobs welfare system; and a pro-jobs spending strategy'.

On employment, he lays out a number of options which combine supply-side measures with steps to raise and boost demand. These include:

- cuts to employers' national insurance contributions when unemployment goes above a certain level;
- incentives to employers to hire those who are long-term unemployed;
- and requiring the Bank of England to take employment into account when it makes decisions about monetary policy.

On spending, Cooke suggests that an incoming Labour government should seek to prioritise 'capital over current expenditure and spending on services that support employment over cash transfers that do not'. He lays out a number of options in line with this principle. These include:

- funding an expansion of childcare by holding down increases in benefits to families;
- shifting the balance of housing expenditure from housing benefit towards housebuilding;
- and channelling benefit spending towards ensuring that no family where someone works 35 hours a week is poor.

On welfare, Cooke argues that Labour's objective should be 'welfare that is more generous but more temporary'. On the basis that lower unemployment could release the necessary funds, he suggests the party consider a stronger 'social insurance' principle in core areas. He presents a number of options, including:

- paying a higher rate of jobseeker's allowance to those who had a contributory entitlement to the benefit;
- and increasing maternity and paternity leave for those who have worked prior to having children.

New sources of funding the contributory principle could also be sought: interest-free loans to provide higher benefits for a short period to working people when they lose a job, which would then be repaid once they find another. Much higher maternity and paternity pay for new parents taking time out of work could be funded by 'frontloading' existing benefits such as child benefit or child tax credits.

Finally, Cooke suggests the contributory principle in welfare could be strengthened by providing temporary paid employment to anyone on jobseeker's allowance after a certain period, but requiring them to take it up.

Public services

Van Riel's second paper tackles the question of **reform of the public services**. 'The 1997-2010 Labour governments tested the proposition that, with enough money, Britain's public services could reach the standards that Britain's voters expected of them,' he writes. Reciting some familiar statistics, he reminds us of just what that investment achieved: record satisfaction levels with the NHS, a significant drop in crime, sure start centres and 400,000 more university graduates.

But 'the harder question', Van Riel notes, is 'whether Labour got dramatically better results than might be hoped for from these dramatically greater resources'. This question is especially acute given that, as noted previously, an incoming Labour government in 2015 will not have the opportunity to increase investment in the way that its predecessor did. The kind of structural reforms advocated in The Purple Book – handing greater powers to public service staff and users – is frequently seen as a way of resolving this dilemma: increasing the potential for on-the-ground innovation and ensuring that resources are most effectively targeted on local needs and preferences.

However, as Van Riel suggests, devolving power is not without risk: for either the ministers who end up with responsibility but no power and, more importantly, for the users of local public services which fail to meet acceptable standards and expectations. Such risks can, in part, be ameliorated by handing powers to those who have already proved they are unlikely to fail: schools judged outstanding by Ofsted, for instance. The paper therefore argues for Labour to start focusing on 'the excellent public service providers that we are ready to trust with extra powers, even if this means extra risks.' As Van Riel acknowledges, there may be other parts of the public services that we are satisfied with and where incremental progress is better than the risks that structural change would bring.

It is also, though, important to recognise that, in some areas, 'if the current state of affairs is appalling then the risk seems pretty slight compared to the certainty of a continuing bad situation'. There are, for instance, 650 schools in England where the majority of pupils fail to get five good GCSEs. Those satisfaction rates with the NHS should also be balanced against facts such as these: 10,000 lives would be saved each year if England achieved cancer survival rates at the level of the European best.

Reform is not something that we have to be serious about just in government: it should also inform our approach to opposition. Van Riel urges Labour to consider now issues such as: the potential areas of conflict between what public sector staff and their representatives want and the needs of the public; the circumstances where ministers should reject a popular local campaign to 'save' a particular local service; and the instances in which government may have to step in and make a change to how a service is delivered, even if that is unpopular with practitioners or the public. In short, he suggests, 'there are occasions when we might consider making a distinction between what people want, and what they actually need.'

"10,000 lives would be saved each year if England achieved cancer survival rates at the level of the European best"

The 'care crunch'

Patrick Diamond's chapter on the 'care crunch' forces us to confront both one of the demographic factors driving the pressure on public spending we discussed earlier and the need to **identify priorities for public spending**. As Diamond argues, 'childcare and social care both concern core issues of living standards, employment opportunity, quality of life, and ladders of social mobility that will remain a key battleground in Britain for years to come. Indeed, tackling Britain's "care crisis" will be central to Labour's appeal at the next election.'

Its focus on families and children was one of the major achievements of Labour's time in office and it was a key priority for investment. UK spending on childcare and nursery education in the 10 years after Labour came to power in 1997 was the fastest rising in the OECD, tilting Britain towards the Nordic 'social investment' model of Sweden, Denmark, Norway and Finland.

While the greater proportion of this additional spending went on income transfers to reduce poverty and assist lower- and middle-income families through tax credits, there was a big expansion of free childcare for three- and four-year-olds.

That progress is beginning to be reversed by the coalition government with sure start centres closing and the support for childcare given to low-income families pared back. Important issues of cost, accessibility and quality will confront an incoming Labour government. Indeed, the OECD estimates that while the average family across the industrialised world spends 12 per cent of household income on childcare, that figure rises to 27 per cent in Britain.

But offering a bold agenda on childcare is not just crucial to tackling the squeeze on living standards, it is also vital if we are to **raise the employment rate.** As Diamond outlines, the issues of accessibility and cost prevent many women re-entering the labour market after having children. Thus, while Britain has a relatively high rate of female employment, women with children are less likely to work in Britain than elsewhere in the OECD.

Moving towards a universal early years and preschool service for all one-to-four-year-olds in England would be a smart investment for the future – and not simply for its effect on cutting child poverty and boosting social mobility. Research by IPPR suggests a net return of over £20,000 over four years in tax revenue (minus the costs of childcare) for every woman who returns to full-time work after one year on maternity leave. However, the upfront costs of moving towards such a universal system of preschool provision are considerable: an estimated £7bn per annum, on top of the £2.75bn the government already spends each year funding 15 hours per week of free childcare for all three- and four-year-olds.

While existing resources could be marshalled more effectively, such an investment will require new sources of income. Diamond presents four possible options:

- shifting resources from tax credits into childcare services;
- freezing other benefits such as child benefit and tax credits;
- reducing welfare entitlements for wealthy pensioners such as free TV licences, bus travel and winter fuel payments;
- and reforming the system of wealth taxation to generate additional revenues. This might include restricting pension tax relief to the basic rate of 20 per cent, introducing a 'mansion tax' or reforming local taxation.

He concludes, however, that 'a combination of all four options will probably be necessary to generate sufficient resources.'

Despite these tough choices, a shift towards universal childcare, by **boosting the employment rate and expanding tax revenues**, could form a crucial component in helping Britain meet the challenge of how we pay for social care.

Like other parts of the public services, adult social care witnessed considerable investment during Labour's time in office. Between 1997 and 2008, it rose by 53 per cent in England and Wales. However, provision currently remains inadequate. The Dilnot Commission report, Fairer Care Funding: The Report of the Commission on Funding of Care and Support, which reported to the government in July 2011, estimated that over the preceding four years demand outstripped supply by nine per cent, while 300,000 people are estimated to have unmet care needs.

These pressures are only set to grow, however, with the OBR estimating that UK public spending on long-term care will rise from 1.2 per cent of GDP to 1.7 per cent over the next 18 years. Dilnot condemned the current system as 'confusing, unfair and unsustainable'. Although there are enormous variations in cost, a 65-year-old can expect to need care costing £30,000 on average during retirement. And, while 20 per cent of people need care costing less than £20,000 and a further 20 per cent require care costing over £50,000 a year, one in 10 will face care costs of £100,000 in their lifetime. As Diamond argues, 'since future costs are unknown and impossible to predict, there is a strong case for "risk-pooling" and a clear rationale for government action given the failure of private insurance markets.'

Although the government spends £14bn currently on adult social care in England and Wales, cost savings could be achieved through better integration between the health and social care systems, early intervention and prevention (particularly to reduce emergency hospital admissions), and the 'personalisation' agenda.

However, those savings alone will not enable the creation of a comprehensive long-term care system for the elderly. Dilnot's proposed 'shared responsibility' model, where the state and individual contribute towards the cost of care, has been endorsed by Labour. His proposed cap of £35,000 on an individual's payment for future care costs and a raising of the asset threshold for those in residential care beyond which no means-tested help is given would have cost £1.7bn in 2011. As Diamond argues, however, 'there are compelling arguments against funding social care purely through general taxation, both on equity and efficiency grounds. Expecting those currently in work to fund an overhaul of long-term care would amount to a significant intergenerational redistribution in favour of older people.' Indeed, the cohort in the UK aged over 50 currently has an estimated £937bn in housing equity.

Diamond, therefore, lists a number of options for funding a long-term social care solution. These include:

- a general five per cent levy on all estates in England, a 'lifetime gifts tax', and a 'mansion tax';
- and a reduction in 'welfare for the wealthy', including cutting free travel and TV licences and winter fuel allowance for better-off pensioners and levying national insurance on higher-income pensioners.

Conclusion

Since the party was ejected from office, wise heads have advocated it confront the question: 'what is the point of the Labour party when there is no money?' But perhaps this is the wrong way to address the challenges the country faces. Instead, Labour should be seeking to define its priorities and then decide how it wishes to allocate Britain's £700bn of public spending to them. The Purple Papers seek to open that debate.

2. The economics questions that no economist can answer for you

– Steve Van Riel

Some decisions in economics are easy. Would you like the economy to grow? Would you like higher wages and lower prices? Should we reduce unemployment? The answer is the same whether you are Labour, Tory or a Liberal Democrat. Once you have made the decision, getting that growth or reducing that unemployment is then very complicated: requiring abstract theories, hard-to-interpret data, and the humility to realise that, as with any scientific endeavour, progress normally comes from failing many, many times. We could call these the 'easy-complicated' decisions without actually being contradictory.

But there is also another set of decisions. Sometimes it is quite straightforward to achieve something: say, to pass a law that requires employers to give everyone an extra day of annual leave. The hard bit is deciding if you should. We could call these the 'hard-straightforward' decisions. Not all the easy-complicated decisions are values-free. For example, it is a question of values whether you want the super-rich to pay more tax: it just is not a very hard question and everyone from the far-left to moderate conservatives will say the same thing. Actually getting these billionaires to pay more tax is, however, legally and economically a tricky business. By contrast, it should be an agonisingly hard decision to increase taxes on middle-earners, but it is not a technically difficult thing for the Treasury civil servants to achieve if a chancellor tells them to. An economist cannot answer these 'hard-straightforward' questions for you any more than a mechanic can tell you where to drive. The last Labour government, overall, was pretty good at taking the easy-complicated decisions. Independence for the Bank of England was what economists call the nearest thing to a free lunch because it tends to lower inflation without a corresponding increase in unemployment. The intricate stimulus and bank recapitalisation programme during the economic crisis successfully prevented an acute economic collapse. In between those two events, the economy grew and produced more jobs and more tax revenues than anyone might have expected in the 1990s, thanks at least in part to the careful management of the thousand moving parts of the economy that the Treasury has influence on.

> “An economist cannot answer these 'hard-straightforward' questions”

When the decisions were hard but straightforward, Labour's record was more mixed. On a few occasions, the Labour government did suggest people should pay more for better public services. When it was a rise in national insurance for the health service, this was largely popular. When it was a levy on inheritance for social care, it was not. In the first term, Labour raised enough money in taxes for all its spending. This was not true later on. Eventually, Labour produced some pretty hard policies on raising the retirement age and moving those living on incapacity benefit, but capable of working, into jobs. But the pain of that latter process meant it was left late, by which point work opportunities were deteriorating and the Conservatives were about to take over. One lesson for a future Labour government is this: problems do not go away. The choice is not, in the end, between the status quo and reform. The choice is whether the reform is done by a Labour government with Labour values or a Tory one with Tory values, done later, often in worse circumstances.

The next Labour government will have more hard but straightforward decisions to make than the last one. By 2015, for 13 years in a row the British state will have spent more than it raised in taxes. The interest we pay on our debt will have risen to £60bn a year – twice the size of the tax credits budget – and will continue to rise unless that government takes determined action. 2.9 million children, up from 2.5 million in 2010, will have entered relative poverty according to the Institute for Fiscal Studies. China and a whole host of emerging economies have explicit strategies to move up the 'value chain', particularly on manufacturing – the jobs they are competing for are no longer low-skill, low-wage jobs that western countries might think they could afford to give up. And that growing global demand and the need to control carbon emissions makes it look inevitable that energy costs are set to rise for companies and households.

The last Labour government's great failure when it came to easy-complicated decisions was banking regulation. The Treasury, the Bank of England, economic forecasters, experts of right and left – almost without exception, these mechanics failed to spot that the car's breaks were faulty. The consequences were – or rather, are – disastrous. In hindsight it is an easy choice: if people had been offered a choice of stricter regulation of banking risks or the consequences we see today, not even the maddest free marketeer would have made the political decision for the latter. So the financial crisis offers little direction on the difficult values-based decisions that we need to make now. But it does offer us one point: the preceding paragraph lists some of the risks we know about. If some new, as-yet unidentified, intellectual failure is waiting for us then we may have to take even tougher political decisions in the years ahead.

Taking risks for growth

Growth, of course, makes all the decisions easier. With enough growth, you can have low taxes and great public services. There are lots of easy-complicated ways to increase growth: removing a piece of regulation that has no benefits, say, or discovering a new technology or better management technique that improves our productivity. But suppose those only take us so far. After you have done all the things without risks – some of which are fascinating and complex but none of which are very political – you come to the choices that are about how much risk you are willing to take and what costs you are willing to pay.

Taking on risk, or not, is a question of values. The last few years have shown how badly wrong an economy can go and who gets hurt in the process. But they have also shown how little can be done with an economy that has low or no growth.

Take bank lending: ultimately, the easiest way to reduce risk in the financial services sector is to lend out less money in total or lend less money on riskier projects by charging higher interest rates. But business representatives and would-be homeowners are crying out for more lending and, rightly, say that such additional lending would speed up economic growth. And the riskier projects might be the ones which progressives are most sympathetic towards: the would-be first-time buyer or the struggling entrepreneur, for example. Eventually a party that wants to govern has to choose: do we go back to taking risks or do we live with lower growth? Diversifying the economy away from such City concerns might seem like a risk-free option but eventually diversification and specialisation run in opposite directions and it is that risky specialisation which is behind the world's growth hotspots like Silicon Valley. Again, we have to choose.

Government money – whether through targeted tax cuts, government-backed loans or direct funding – can help support industries at a crucial moment in their development and so, potentially, create more in growth than they cost in taxpayer support. In his chapter in The Purple Book, Peter Mandelson described how this money can 'pump-prime certain investment and contribute selectively to the heavy lifting of early stage technology or product development and market entry where market forces alone cannot or do not do the job themselves'. Spending on improvements in infrastructure, such as high-speed rail, can also create more growth in the long term than it costs in the short term. But growth is not guaranteed: sometimes the tax cut just subsidises an industry that was going to grow anyway, the firm that received the government loan goes bust, or an expensive new piece of infrastructure adds little to the economy when it too becomes clogged up with traffic. The government's regional growth fund has been criticised as just such a flop: in

“Eventually diversification and specialisation run in opposite directions”

some cases it has been reported that only one job was created for £200,000 of spending by the fund.

There are real losers from such spending. Money that could be funding social care or taking children out of poverty is subsidising people travelling for business meetings or being spent by corporate executives on their latest project. We cannot know how many of those losers there will be but we still have to decide if we want to risk some pain now in order to get higher growth in the future.

The level of risk in our economy is also partly about how much debt the government owes. Reduce debt and you make the economy more resilient because you increase our capacity for short-term 'Keynesian' spending to create jobs when times are tough. If a Labour government arrived in office in 2015 and ran surpluses for, say, five years, that would reduce risk in our economy and result in less taxpayers' money being wasted on debt interest payments. But is the associated pain, as the public spending squeeze got tighter, a price we would be willing to pay in the short term? A binding set of fiscal rules can improve a government's credibility in the markets, but is committing to any sort of fiscal rule worth the risk that, when crisis hits, the rule will have to be broken – as happened to the last set of fiscal rules?

All of this is a sketch: in every choice offered there are smarter or more efficient ways of implementing the choice. But before a Labour government wins power, we need to decide what the Labour attitude to growth and risk is. You can make a Labour case for reducing risk and you can make a Labour case for increasing growth. Which one do we want?

What we ask of people we like

Sometimes in politics you get to ask more of a group of people you are not keen on; tax evaders or benefits cheats, say. Actually doing so might be quite complicated for the officials and policy experts, but at the level of values it is all very straightforward. So assume now that we do all of that: that whosoever you think is deserving of a tougher time, gets one. But, unless you dislike an awful lot of people, it is very unlikely that this will be enough to meet all of Britain's economic challenges. Then we have to think about what hard things we might have to ask of the people we do like.

There are many reasons we might have to ask something of the people we like. Taxes have already been increased by the coalition government to help reduce the deficit – they may have to go up again. They almost certainly will if we want to use that revenue for something we want for the country, like abolishing child poverty, or if we want to discourage carbon consumption. If people train and get new skills partway through their lives it tends to be good for them and good for the economy. Although we do not always state it explicitly, our economy relies on asking people to move from areas that are not creating jobs to those areas that are. Many businesses would grow faster if we asked some areas to welcome new homes, new skilled workers from overseas or extra airport capacity. Allowing inflation to run a little higher would reduce the real value of the public and private debts we owe.

But we have to appreciate how difficult – politically, morally or both – some of these requests are. Increases in the cost of living are the last thing people want right now. Higher taxes mean people have to work longer for the same standard of living – when the last Labour government was actually trying to help people who wanted to shift their work-life balance in favour of their family commitments. Politicians should realise the scale of what they are doing if they are asking someone in their 50s to start a new career. Few underestimate how hard it is to persuade people to accept housebuilding on their local greenbelt, new immigrants using their local public services, or more planes flying over their heads.

The next Labour government will only have the political capital to be able to do some of these things, if, indeed, it wants to do any of them. There are ways of minimising the pain or making a better case for it. But there is a question for every Labour member now: whether, how much, and of which of the people we like are we willing to ask something difficult or painful?

Paying a price to reshape the economy

Policies designed to influence the way markets distribute goods and wages are often advertised as cost-free – and, indeed, some of them are, or the costs and risks have already been mentioned above. For example, making it easier for cooperatives and mutuals to be founded and operate, as both John Woodcock and Tristram Hunt argued for in their chapters of The Purple Book, seems relatively cost-free, while giving them a tax break has a clear fiscal price tag that may or may not be worth it. But, as Woodcock suggested, 'those on the left should never fall into the trap of assuming regulation comes at no cost' – a reminder that is particularly important for advocates of 'predistribution'.

One common argument is that since government spends a lot of money – on everything from fighter planes to paper clips – we should require the firms that do business with government to do so while achieving a particular social goal: for example, creating a number of jobs in the UK or introducing a certain number of apprenticeships. Businesses might meet these obligations in a number of ways – from reducing dividend payouts to reducing the quality of the goods the government is buying – but eventually the most straightforward way is to increase the price that the taxpayer pays. So the political choices sometimes return to ones we have already discussed: whether we take risks with public money in order to improve growth – in helping a particular nascent industry get off the ground, for example – or whether we ask people we like to pay more in taxes for a social good, such as better environmental standards or better wages for the lowest paid. Then there is a second-order choice as to whether it is more effective to get our apprenticeships or new industry through direct funding or through clauses in a procurement contract – that can be a complicated choice for the officials and economists, but it is not a question of values.

The most innovative and radical part of the predistribution argument is to strengthen the bargaining power of non-state actors – principally, though not exclusively, trade unions – so that they negotiate a different settlement to the one the market currently provides. It is easy to say you want union members to be more engaged in their unions and for management and unions to get on well. It is, however, not always clear how you make that happen as a government.

When it comes to what government can do, we have to recognise that if you give people more power you must be prepared to accept that you will not always like the way it is used. It may still be the right thing to do, but giving more power to unions over management or more power to managers over shareholders is an act of trust. At the extreme: make it easier to hold strikes and you must accept that there is at least a chance that it will result in more strikes happening, making it harder for shareholders to exert pressure on managers and managers may not push as hard for growth.

Then there is the question of pay. Higher wages – whether because of negotiations, legislated minimum wages or norm-setting campaigns like the 'living wage' campaign – must be funded from somewhere. Small increases might be absorbed by firms or passed on to consumers in the form of higher prices, as happened with the national minimum wage under the last Labour government. If productivity is rising, say, because people are becoming more skilled, then higher wages can be paid for through higher productivity. Eventually, though, if the wage increases are big enough then it means fewer people are employed. There is a coherent but disputable argument that says this unemployment is a price worth paying to avoid poverty pay – but if this choice is made, everyone has to make it with their eyes open to all the potential consequences. If that road is not taken, then wage increases – whether they are won through legislated minimums or living wage campaigns – will always have to be incremental or productivity-driven.

“Eventually, though, if the wage increases are big enough then it means fewer people are employed”

Conclusion

The next Labour chancellor of the exchequer will benefit from pages and pages of the most expert advice from officials, academics and thinktanks about the easy-complicated choices. They may do well with those decisions, they may not. As a political movement, there is not a huge amount we can do right now to improve the quality of that advice in 2015. What we can do is to decide where we stand on the hard-straightforward choices. Build a consensus for a decision, and the next Labour chancellor might be able to take it and survive the inevitable political pain of that choice's downsides. Leave the argument until you arrive in government and they – and we – might not.

For most people in politics, let alone everyone else, engaging in this debate is intimidating. Often, not being intimidated is the surest sign that someone does not understand it very well. Economic blowhards, of left and right, are part of the problem and so is the soothsayer quality that seems unavoidable in debates around how the economy will grow in two or three years.

Questions to debate:

The questions I have asked here are hard. I am not sure what my answers would be to all of them and I might change my mind in the future. But everyone is qualified to answer them. If you want to have a view about how this country should be governed over the next five years, you need to try and have a view about these three questions:

1. When should we take a risk for growth?
2. Who do we ask to work harder or longer or to live in a community that is changing in a way they do not like?
3. When do we wish to give greater legal powers to individuals, unions or managers in order to help reshape the economy? Are we prepared for those powers to be used in ways that reduce growth?

You do not need a qualification in economics to answer these questions, but trying to answer them is a minimum qualification for those who aspire to change a country.

3. Getting Britain working

– **Graeme Cooke**

Amid the heated political exchanges about the deficit and growth, the real human catastrophe of recession is unemployment. It is true that the jobless total has not risen as high as many analysts would have expected, given how much our economy has shrunk. But the rise in unemployment has only been offset by large numbers of people working fewer hours than they want and an unprecedented fall in real wages. Even then there have been more than 2.5 million people looking for work for almost the entire period of the current government. And every person who loses their job suffers pain (and those who cannot find a new one are denied the dignity, purpose and income that come for so many of us from work) not to mention the economic and social costs of unemployment for the country.

Labour is the party of work and the first priority of an Ed Miliband government should be to bring unemployment down and make full employment the central goal of economic policy. This will require rethinking policy in a number of areas – as well as building alliances with business, investors, entrepreneurs, civic leaders, workers, educationalists and campaigners right across society. This paper focuses on three areas worthy of particular attention:

- A pro-jobs employment policy;
- a pro-jobs welfare system;
- and a pro-jobs spending strategy.

Before expanding on each of these, it is important to reflect on the lessons from Labour's time in government – and the emerging record of the coalition.

Labour's legacy and the coalition's record

The success of the Blair-Brown governments on employment (at least up to 2007-8) is illustrated by how little it featured in political and policy debates in the decade or so leading up to the financial crisis. Unemployment continued to fall after 1997 and the employment rate topped 74 per cent – among the highest in the Organisation for Economic Cooperation and Development. The employment rates of groups normally facing labour market disadvantage, particularly lone parents, rose by more than for the workforce as a whole, though this was not true for people with low qualification levels.

The number of people on out-of-work benefits fell by around a million under Labour before the recession. However, given the length of sustained growth in output and employment, it must count as a major disappointment that the number of people on out-of-work benefits never dropped below four million. There will always be some people temporarily taking time away from work, and some for whom paid employment is a difficult prospect. But this figure suggests far too many people were kept locked out of the labour market. Detailed studies have found that immigration was not to blame. More people coming to Britain increased the demand for labour, as the population grew and more goods and services were consumed, though there is some evidence of localised wage effects.

Reforms to the welfare system under Labour increased the obligation to work and also enhanced both support and incentives to gain work, through policies like the New Deal and the creation of the working tax credit. This was highly effective for those most able to work, claiming jobseeker's allowance, and lone parents. But Labour came too late to reform of incapacity benefit. The chance to bring in a new gateway to the benefits system and a new approach to employment support for people with health conditions and disabilities during a period of employment expansion was largely missed. The limitations of the work programme and the work capability assessment – implemented at a time of budget cuts and high employment – are becoming ever more plain to see.

The story of welfare spending under Labour is less straightforward. Benefit expenditure rose rapidly from 2007-8, as it is supposed to do during a recession. Spending on JSA, income support and incapacity benefit actually fell in real terms after 1997 up until that point. Overall, though, spending on Department for Work and Pensions benefits (ie excluding tax credits) rose, from £93bn in 1997-8 to £126bn in 2007-8 in cash terms.[1] This was the result of conscious decisions to redistribute money to children and pensions, accentuated by a small baby-boom around the turn of the century and an ageing population. There were also steady rises in other benefits, like housing benefit and disability living allowance.

"Labour came too late to reform of incapacity benefit"

As welfare spending spiked in the recession, Labour's governing legacy came to be associated with an 'out-of-control benefit bill'. This is harsh and much too simplistic. A fairer critique is that Labour failed to pursue a clear set of strategic priorities for welfare expenditure – channelling extra resources in multiple directions –

1. Spending on child tax credit and working tax credit is now around £30bn a year.

and did not take the opportunity to undertake deeper reforms to ease underlying spending pressures, such as in housing. Then, when job losses and drops in household income hit from 2007-8, many people newly encountering the benefits system came to realise that it offers relatively weak protection at moments of economic shock, even for those who have paid into the system for a long time.

This is the backdrop against which the coalition government came to power, with plans for the work programme and the universal credit. Laudable in intention, these increasingly appear as policies fighting the last war: much more suited to the era of rising employment and expenditure. Neither is directly addressed to the most pressing problems. The work programme does not increase the supply of jobs available, thus leaving it overwhelmed, while the universal credit does not establish priorities for spending, it just amalgamates existing payments.

Instead, the main story has been £18bn in benefit cuts, many of which hit working families despite the rhetoric of making work pay. There has been no underpinning strategy, other than the protection of pensioner benefits, and there is almost certainly more to come given the failure of the government's deficit-reduction strategy. More broadly, a populist stance on welfare is emerging as central to the Tories' political strategy, based around the popular – though in truth largely symbolic – 'total benefits cap'.

The challenges facing Labour at the next election

If the party wins the general election in 2015, the next Labour government is very likely to inherit stubbornly high unemployment, a welfare system commanding little public confidence, and the need for further spending cuts and tax rises to straighten out the public finances. This would pose a difficult and distinctive set of challenges for Labour that the party should face openly and directly from now until the election. This new context is different in important ways from the one faced in the late 1990s. In 2015:

- Unemployment is likely to be too high and there will be a greater burden on increases in the employment rate delivering higher living standards and sustainable public finances, given reduced scope for greater redistribution.
- The political legitimacy of the welfare system will need to be secured against populist Tory attacks and the widely held belief that it offers too much to those who have not contributed into the system and too little to those who have.
- Benefit expenditure will still be rising, despite major cuts, due to high unemployment and other underlying drivers, with pressure for more reductions to ease further cuts in public services, but a desperate need for a plan to reshape spending.

A new policy agenda

In light of these challenges and the likely context facing Labour at the next election, the party should consider how it might construct a new 'pro-jobs' policy agenda on employment, welfare and spending.

Employment: boosting the demand for labour

The precondition for significant increases in employment will be a return to sustained growth, driven by the private sector, especially in the north of England. There are a number of ways that the government can support this goal, from increasing business investment to improving workforce skills. In developing these policies Labour could consider ways of tilting them towards 'job-rich' forms of growth. For example, balancing the traditional focus on the supply side of the economy – including through active and flexible labour market policies – with steps to raise and maintain the demand for labour. Options could include:

- **Strengthening the impact of the so-called 'automatic stabilisers'** to maintain hiring at points of demand constraint, such as a cut in employers' national insurance contributions kicking in whenever unemployment goes over a given level nationally, such as two million.
- **Learning lessons from countries that were most successful in maintaining employment during the downturn**, such as 'working time accounts' in Germany that allowed workers to build up overtime during periods of growth which could then be 'cashed in' during recessions when demand for firms' output fell.
- **Asking the Bank of England to take employment into account in its decisions about monetary policy**, as is the case for the Federal Reserve in the United States. This might include the bank taking a greater interest in patterns of wage growth in the economy, as this mediates the link between employment and inflation and affects domestic demand.
- **Boosting the employment prospects of those struggling to find work** by increasing the incentive for employers to hire people who are long-term unemployed or workless, such as through lower national insurance contributions or the state taking on employer pension obligations or other labour costs for a short, transitional period.

Spending: reshaping benefit expenditure to generate jobs

Even with steps such as these, there is a risk that reductions in public expenditure will reduce the demand for labour – unless there is a strong bounce back in private sector job creation. Therefore, a central consideration in necessary deficit reduction should be the jobs impact of different aspects of public spending and taxation. Labour could aim to shift as much expenditure as possible towards areas that are pro-jobs – and rebalance the tax system in the same direction, such as by shifting from taxing labour to capital. Broadly speaking this would mean prioritising capital over current expenditure and spending on services that support employment over cash transfers that do not. Options could include:

> “There is a risk that reductions in public expenditure will reduce the demand for labour”

- **A substantial advance in the provision of high-quality affordable childcare paid for by holding down increases in benefits for families – such as child benefit or child tax credit**. This would help parents to combine work with bringing up their family and making work pay. It would also directly increase employment. Compared to countries like Denmark, which have higher employment rates and lower child poverty than Britain, we channel far more spending on families through benefits than services.
- **Shifting the balance of housing expenditure from housing benefit towards housing capital investment**. Over the current spending review period, £95bn will be spent subsidising rents, 40 per cent of which is going to private landlords, with just £4.5bn going towards building new affordable homes. Housebuilding creates jobs and boosts the productive potential of the economy. This shift in spending could be achieved, over time, through

decentralising housing expenditure to mobilise local initiative and leadership.

- **Prioritising work in choices about benefit spending with the goal that no family, where someone works at least 35 hours a week, is poor**. This could be a Labour alternative to the coalition's expensive and poorly targeted increases in the personal tax allowance. Distinct in-work benefits will be dissolved under the universal credit, but, assuming it is implemented, reforms could be made to ensure a clear and considerable 'step-up' in financial gain at a certain number of hours' work.

Welfare: active reciprocity and rewarding contributions

A further way of boosting employment would be to orientate welfare so that it further embodies mutual obligation, or what is sometimes called 'contributory welfare'. This could be based on the principle of demanding more and protecting better. For some people, the welfare system needs to provide a replacement income for a long period due to a disability. But for the vast majority, the objective for Labour should be welfare that is more generous but more temporary: providing proper support at moments of transition, in light of contribution previously made. This will require structurally lower inactivity and unemployment to release the necessary funds, but consideration could also be given to developing a stronger 'social insurance' principle in core areas. Options could include:

“Welfare should be more generous but more temporary”

- **Offering stronger protection at points of risk and transition – such as job loss and having a child – for those who have paid**

into the system. This could be done by paying a higher rate of JSA for those who had a contributory entitlement to the benefit and increasing maternity and paternity pay for those who have worked prior to having children. It would be expensive, though, at least in the absence of a significant drop in the number of people claiming benefits.

- **Finding new sources of funding to strengthen the 'contributory principle'**, such as providing substantially higher benefits for a short period to working people when they lose a job in the form of an interest-free loan. This would then be repaid once they were back in employment. Similarly, much higher maternity and paternity pay for new parents taking time out of work could be funded by frontloading existing benefits for families such as child benefit or child tax credit.
- **Embedding a job guarantee as a backstop in the welfare system**, providing temporary paid employment for anyone on JSA after a certain period, but expecting them to take it up. This could be combined with ensuring that virtually everyone on out-of-work benefits is taking active steps towards employment, with personal action plans and clear consequences for failing to meet agreed obligations.

Questions to debate:

1. Should full employment be a central goal of the next Labour government and how might such a goal affect policy?
2. Are there ways that policy could improve the 'incentive to hire', as well as focusing on the incentive to work?
3. How should Labour respond to the Tories' call for a further £10bn of welfare cuts and what should its spending priorities be?

4. Would it make sense to shift money from cash benefits into services and spending that boosted employment?
5. How might it be possible to make the welfare system more contributory and what are the trade-offs involved with doing so?

4. Public services and political choices

– Steve Van Riel

The 1997-2010 Labour governments tested the proposition that, with enough money, Britain's public services could reach the standards that Britain's voters expected of them. Under John Major, education and training spending averaged around £50bn a year in today's prices. In Labour's final years it averaged more than £90bn. When Clement Attlee left office, 3.5 per cent of Britain's national product was devoted to the NHS. When Gordon Brown left office, it was 8.2 per cent. Shortly before the millennium, 5.5 million people worked in the public sector, while at the start of 2010, it was 6.3 million.

What did all that money get us? Quite a lot. Satisfaction with the NHS hit 70 per cent, its highest level for many years, as Labour left office. The British Crime Survey recorded a significant drop in crime. Expanding higher education meant that 400,000 more people graduated from university. Sure start centres – which did not exist before 1997 – became more numerous than secondary schools, of which hundreds had also been newly built or rebuilt.

As Douglas Alexander wrote in The Purple Book, 'during our time in office we killed for a generation the argument that a publicly funded NHS could not meet the rising aspirations of the British people' – and something similar could probably be said about much of the rest of our public services. The one-line summary of Labour's record on public services has to be this: a political argument was won, much money went in and many outcomes improved.

The harder question is whether Labour got the dramatically better results that might be hoped for from these dramatically greater resources. There is a line to walk between what Alastair Campbell calls 'defending a record for the sake of it' and 'ensuring, when policies for the future are set out at the next election, that Labour are able to say "we delivered in office before, and we can do so again".' So a list of successes has to be balanced with some other facts: The King's Fund has found that higher pay costs have absorbed more than half of the increase in the financial resources that became available to the NHS after 1997. Professor Alison Wolf's independent review of vocational education found that what was being offered 'for between a quarter and a third of the post-16 cohort … [is a] diet of low-level vocational qualifications, most of which have little to no labour market value.' More prison places were made available but the rate of convicted adults reoffending within a year of their original offence remained stubbornly above 40 per cent.

"The next Labour government will not be able to use spending to blunt the sharp choices in the public sector"

Whether you think that that underplays or overplays what Labour achieved, the next Labour government will not be able to use spending to blunt the sharp choices in the public sector. The deficit is one reason, and a very big one: by 2015, Labour would have the option of doubling the education budget, were that money not already necessary to pay the interest on our public sector debts. But the deficit is not the only reason: new money that can be found will likely be quickly drained in an ageing society when the average cost to the NHS of each of the growing number of retired households is nearly double that of non-retired households. Given the spending reductions taking place right now, little more will be got from reducing waste and inefficiency in 2015: in many places we may inherit services pared back to the bone.

When additional money was coming in all the time, it was easy to get into the habit of advocating for, say, more school sport, or more research into lung cancer, or a crackdown on violent crime. When money is tighter, suddenly that demand for more school sport is also a demand for less spending on science equipment, funding for lung cancer is not funding for breast cancer, more time pursuing violent crime means less time pursuing property crime, and so on.

Until we have whole government departments reporting to Labour ministers – and frankly, maybe not even then – no one individual in the Labour party is really equipped to make the trade-offs in each part of each public service. Often we are passionate and knowledgeable about the areas we want to see more resources for, but it is rare that we are equally passionate and knowledgeable about the areas that would need to be cut in consequence. But if those policy choices have to wait, the political choices around them cannot be delayed until after the election. These political choices, outlined below, are the ones a Labour prime minister will most need a mandate for, both from the country and within the party.

Incrementalism, trust, dissatisfaction, and radicalism

The first political choice is this: should ministers be making this decision at all? If you have just become a minister, there are many reasons not to hand your powers over to someone else. Most importantly, some of the people you give power to will fail. One foundation trust – Mid-Staffordshire – was given more powers and used them so badly that the then Labour secretary of state for health, Alan Johnson, condemned its 'complete failure of management to address serious problems and monitor performance' leading to 'a totally unacceptable failure to treat emergency patients safely and with dignity.' Andrew Adonis, the foremost proponent of independent state schools, cites in his book Education, Education, Education the example of St Mark's Church of England Academy in Merton which remained 'near the bottom' of the borough's school results despite an expensive new building and academy status. And, as Paul Brant and Steve Reed wrote in The Purple Book, councils devolving power face the same challenge: 'more variety in the services on offer and how they work brings with it higher levels of risk'.

One case for handing away power is that you are handing it to people who have proven that they are unlikely to fail. For example, Adonis advocates giving a school judged outstanding by Ofsted the power to set its own curriculum. The logic is that headteachers are sometimes better placed to make judgements about the best curriculum for a school than ministers are. However, some schools might badly manage the curriculum. Therefore, only those judged to be good at teaching and management already will be given the power. The same rationale was found with foundation trusts and 'earned autonomy' in local government. But sometimes even those bodies that have proved themselves in the past will let us down in the future. When national politics determines local elections, such failures may not end up being punished even if there is a local electoral mandate.

One of Labour's tasks in opposition is to spot where those exceptionally trustworthy bodies are and look if there are powers that can be handed to them, aware that there is some risk that some of them will fail. That is an argument about taking the very good and trying to make it even better, with some risks attached. But it is not the only time we need to think about structural reform. If you think a public service is good enough, or can be improved enough with the incremental guidance from Whitehall, then there is often not a case for taking on these risks unless you are dealing with bodies that have proved themselves time and again.

On the other hand, if the current state of affairs is appalling then the risk seems pretty slight compared to the certainty of a continuing bad situation. Adonis writes 'in my experience, avoiding euphemisms to excuse an inexcusable status quo is the first essential in a progressive reformer' and there are facts about the status quo we cannot ignore. One hundred and thirty children from the poorest households get into Oxbridge each year, compared to 8,000 from private schools. Ten thousand lives would be saved each year if England achieved cancer survival rates at the level of the European best. Three-quarters of people with depression and anxiety receive no treatment. There are 650 schools in England where the majority of pupils fail to get five good GCSEs including English and maths. An international Ipsos MORI survey in 2009 found that 53 per cent of Britons said crime was something that worried them, compared to 33 per cent in France and 24 per cent in Germany.

> “There are 650 schools in England where the majority of pupils fail to get five good GCSEs”

There will be some areas where it is appropriate to be conservative: to say that the current service is quite good and the proposed model of giving away power is quite risky. But when we are outraged by the failures of the current system, then we are pushed into a more radical position. We know that we will now only rarely have the option of trying to be radical by spending more. That leaves structural change as the only radical course. There are, then, different ways of responding to that desire for radical structural change. For example, in The Purple Book, Alan Milburn argued for every state school to become, effectively, an academy. Patrick Diamond, by contrast, suggested that when a school is judged to be failing, then you bring in the structural reform, which was the principle behind the original academies programme. Some of these questions are about a very difficult balance of risk: for example, in her chapter, Tessa Jowell argued that the system of Criminal Records Bureau checks 'puts off more good people than it catches bad' – a clear but not an easy choice when the 'bad' can be very bad indeed.

Questions to debate:

Because sometimes there will be failure, a policy to give away power needs a mandate. If not, the first failure creates a backlash and undermines the whole programme. For a future Labour government to have that mandate, the current Labour party in opposition has to consider three questions:

1. Where are the excellent public service providers that we are ready to trust with extra powers, even if this means extra risks?
2. Where, if anywhere, are the public services that we are satisfied with, where there only needs to be incremental progress, and where the risks of structural change are too great?
3. Where are the public services that so badly need to change or will face such major challenges in the future that we must make significant structural reforms, even if this means some attendant risks?

Wants and needs

Most of the time there is no reason in politics to avoid giving people what they want. Indeed, that is rather the point of democratic politics: if people in Kent want grammar schools and people in south Yorkshire do not, we have to at least start from the premise that that is fair enough. In opposition, it is even easier to go along with whatever is being demanded loudest: how many MPs will say no when asked to join a protest outside a closing local service, even if it was not terribly good or well used? There will never be a shortage of advice saying 'what is to be gained from having a row, in opposition, with public sector managers or trade unions? Why highlight disagreements?'

In The Purple Book, Jowell was critical of Labour's ability to generate 'buy-in' for some of these needs-based changes, arguing that 'the closure of Accident and Emergency departments to make way for polyclinics, for example, while based on efficacious medical evidence, failed to recognise the loyalty users had to local institutions.' But there are also occasions when we might consider making a distinction between what people want, and what they actually need. So no one will ever campaign for a hospital ward to close, but there may be times when it makes more medical sense to have a central group of specialist surgeons performing a complex operation more regularly, rather than having someone in each local hospital perform that surgery once a year. Children might find particular subjects harder than others but we might still require them to be studied. The ban on smoking in public places might not have won a referendum in every pub in the land. A police and crime commissioner might get a boost in support if they promised to abolish speed cameras – do we want to let them?

This is not just about where services are located, however; it is also about how they are run. A report to the recent Global Health Policy Forum, chaired by Labour peer Lord Darzi, cited SalaUno Salud in Mexico, which achieves impressive efficiency levels by treating eye disease on a standardised pathway, with ophthalmologists performing the most demanding part of each operation, but lower-grade staff carrying out the remaining specialised but repetitive tasks. Such innovations could mean treating far more people, but would a policy of 'less time with your doctor' be well received by the public? The same headlines were generated by the creation of PCSOs alongside warranted police officers. Many children will have welcomed the chance to stop learning a difficult foreign language at 14, but will they think that in 10 years' time?

Perhaps the point where wants and needs have the greatest potential to clash is when there is a conflict between what staff and managers want and what the public needs. Ed Balls and Ed Miliband have hardly pursued a confrontational path with the trade unions but have already been strongly criticised by some general secretaries, not for promising reduced spending, but just for saying that maintaining employment levels would take priority over wage increases under Labour. If pay was more directly linked to performance, as John Woodcock has discussed in The Purple Book, or if longer probationary periods were introduced so that it was easier to dismiss poor teachers as Adonis has advocated, it is reasonable to forecast that there might be further clashes with different professional associations and public sector unions.

> "Where do we care enough to say no?"

The problem is that if you spend your time in opposition suggesting that everyone's wants will be acceded to, you have very little to stand on if you later try to make a distinction between wants and needs. Much, perhaps most of the time, we will want to do what people want: maybe those protesters are right about the virtues of that A&E department; maybe the policy advocated by a royal college is exactly the right one for patients as well as the royal college's members. When you agree with the protesters and the royal colleges and the trade unions, then the decisions should be welcome and easy. In fact, things are so easy in those circumstances that we need not trouble ourselves about them in opposition. But even if we do not seek these conflicts, the tight budget constraints may mean that denying some wants will be unavoidable: Adonis says that the fast-growing school capital budget enabled academies to get going in the 2000s. With a smaller capital budget in the 2010s and 2020s, there will be a greater need to decide between the demand for new schools in growing areas and maintaining existing schools elsewhere.

The political question is: given a finite number of conflicts a re-electable government can enter into, where do we care enough to say no to the wants of sections of the public, management or staff? The task is not to work out where they are right. The task is to work out, now, when they will want something in the future that we have to disagree with.

Questions to debate:

1. Under what circumstances should ministers reject a popular local campaign to 'save' a particular local service?
2. When does government have to step in to make a change to how a service is delivered, even if it is unpopular with practitioners or the public?
3. When will there be a conflict between what staff and their representatives want and the needs of the public?

Conclusion

The next Labour government will oversee some calamities even if it does not hand over one extra bit of power. Today's shadow ministers should assume that they will one day end up on Sky News having to explain some disaster they only found out about that morning. There are too many moving parts in our public services to work on any other basis, whichever party is in office. Even if we tried our best to just go along with the tide and do what everyone wants, it would only be possible for so long. Eventually we will have to shut something popular or demand public servants do something differently, if only to meet all the other wants being articulated elsewhere. There will be protests that we might once have joined and placards we might once have carried which will denounce the decisions of a Labour government.

Occasional failures and regular protests can throw a government, make it reactive and ineffective. The best inoculation against such an eventuality is to decide, as a party, what risks we are ready to take and what fights we are willing to have. Clarity of approach will strengthen the hand of every Labour minister who tries to improve our public services. The decisions are not easy: mine might be different to yours and there is nothing wrong with that. You might think the last Labour government gave too much authority to the wrong people, or you might think it missed opportunities to give away power. You might think it was too eager for a political fight or too unwilling to see one through. But, as a party, we have to begin to prepare the ground for that next government – because having a quiet life in opposition means having a miserable life in office.

5. Tackling Britain's 'care crunch'

– **Patrick Diamond**

It is clear that the 'care crunch' – the crisis of inadequate and costly provision in childcare and adult social care – ought to be the focus of radical and bold thinking for progressive politics. The aim must be to revitalise the welfare state in William Beveridge's vision 'from cradle to grave'.[1]

Labour must show it is capable of taking long-term decisions and governing in the national interest. The Conservative-Liberal Democrat coalition is ideologically divided and unable to face up to tough choices particularly on long-term care for the elderly and support for children and families. Since 2010, the government has sought to address the deficit by 'salami-slicing' public expenditure rather than developing a coherent view of the state's role and the services that ought to be provided within the public realm.

Labour's task is to demonstrate that it is a prospective party of government with a plan for the future, fashioning a strategic mission for the state and providing care services in partnership with employers, communities and families. Achieving a fairer, more equal society entails the diffusion and dispersal of power,

1. This chapter deals with care policy for England, given there are separate competencies for social policy in the devolved administrations.

giving families greater choice and control over their lives. This requires:

- An honest assessment of Labour's period in office: what was achieved, and lessons learned;
- a coherent view of the major challenges facing Britain and a clear rationale for government action based on an analysis of the appropriate size and role of the state;
- and a policy agenda guided by the progressive principle of redistributing wealth, power and opportunity to individuals, families and communities throughout Britain.

This paper addresses the 'twin crises' of care, looking first at childcare, and then at social care for older people. Childcare and social care both concern core issues of living standards, employment opportunity, quality of family life, and ladders of social mobility that will remain a key battleground in British politics for years to come. Indeed, tackling Britain's 'care crises' will be central to Labour's appeal at the next election.

Childcare

Given the current challenges facing Britain's families, and the long-term demographic and social challenges confronting the British state, there is a compelling case for a universal system of 'Nordic-style' childcare for all preschool children in England. The provision of free, universal early years provision should be a key strategic priority for a future Labour government as a 'new frontier' of the welfare state. Nonetheless, in an era of fiscal austerity where there are tough choices ahead on taxation and public spending Labour needs to spell out precisely how a comprehensive system of childcare would be paid for. This paper sets out future trade-offs and choices for a party committed both to fiscal responsibility and long-term social reform.

Labour's period in government and the coalition's record

- The great achievement of the New Labour years was to make policy for children and families a central issue in political debate.
- Labour's strategy for children and families had three key elements: making work pay and raising the employment rate; investing in childcare provision and early years services; and using the tax and benefits system to boost the incomes of families with children.[2]
- UK spending on childcare and nursery education between 1997 and 2007 was the fastest rising in the Organisation for Economic Cooperation and Development tilting Britain towards the Nordic 'social investment' countries of Sweden, Denmark, Norway and Finland.
- However, the greater proportion of additional spending went on income transfers to reduce poverty and support struggling lower- and middle-income families through tax credits.[3]
- As a result, direct spending on childcare and early years services grew less quickly. There was still a substantial expansion of capacity during the New Labour years. In 2005 all children aged between three- and four-years-old were guaranteed 12.5 hours a week of free childcare, rising to 15 hours a week by 2010. Annual spending on the sure start programme and children's centres alone rose to over £2bn a year.
- The proportion of three- and four-year-olds in receipt of early years services increased from 63 per cent to 92 per cent by 2010.

2. Jane Waldfogel (2010), Britain's War on Poverty, New York: Russell Sage Foundation.

3. Dalia Ben-Galim (2011), 'Making the Case for Universal Childcare: Briefing', London: Institute for Public Policy Research.

- Over the last two years, the coalition government has cut the support available for childcare to low-income families from 80 to 70 per cent. The Resolution Foundation estimates that hard-pressed families are losing £436 a year as a result of this change.[4]
- In addition, the early intervention grant for sure start was cut by 7.5 per cent this year and 12 per cent in 2011-12, resulting in the closure of over 250 children's centres across England.

Labour's achievements are considerable and contrast positively with the record of the current government. Nonetheless, despite rising investment over 13 years, there are still major issues relating to the accessibility, cost and affordability of childcare:

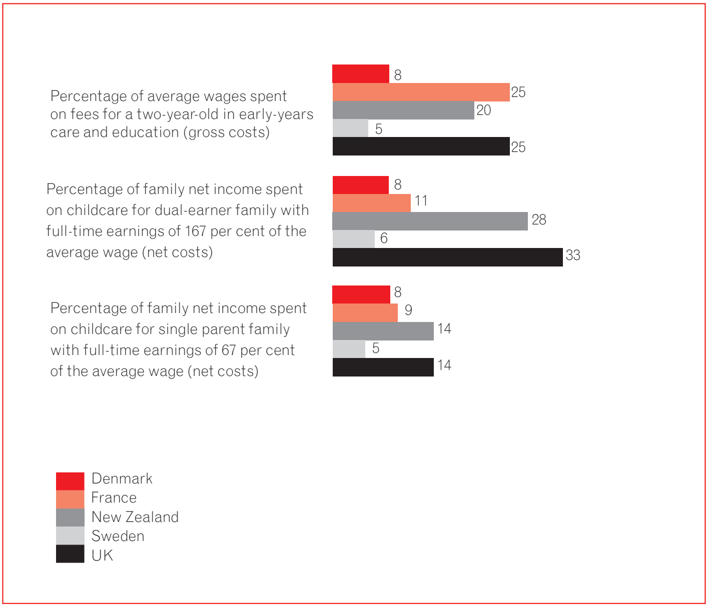
- Childcare costs remain relatively high in the UK, especially in London and the south-east. The high cost of care is a particular issue in Britain. The OECD estimates that, while the average family across the industrialised countries spends 12 per cent of household income on childcare, in the UK the figure is 27 per cent.[5]
- Both the ability to access childcare and the availability of places are dependent on where you live, and there is an ongoing problem of 'postcode lotteries'.
- The quality of early years provision varies across localities and between different childcare settings. The childcare workforce, still 97.5 per cent female, is poorly paid and rewarded, and training can be inadequate.

The table below illustrates the cost pressures impacting on UK families compared to those in other leading industrialised economies.

4. Resolution Foundation (2010), 'Working Families Face £436 Cut in Support for Childcare Costs Next Year', Press Release, 29 December.

5. Organisation for Economic Cooperation and Development (2011), Doing Better for Families, Paris: OECD Publishing.

International comparisons on childcare spending[6]



The financial crisis has put families under greater pressure, given declining living standards, falling real wages, and the relative cost of preschool provision in the UK. According to recent estimates, the typical low-income family will see its net income fall by 15 per cent by 2020 to £9,000 per annum; those on 'middle' incomes are likely to see a three per cent fall to £22,100.[7] The trend is particularly strong against income growth for the bottom half of households in the UK, which makes raising the employment rate a key priority. The danger is that expensive and inadequate childcare provision prevents parents from working to their full potential. Dealing with the issues of affordability, cost and accessibility alongside the 'squeeze' on family living standards requires bold solutions, namely a system of universal childcare as the modern arm of a 21st century welfare state.

6. Daycare Trust (2012), Childcare Cost Survey: 2012, London: Daycare Trust.

7. Resolution Foundation (2012), 'Living Standards Set for Decade of Decline Unless Britain Charts a New Course', Press Release, 23 September.

The policy challenges facing Britain and the rationale for government action

There is a compelling rationale for a universal early years and childcare service in England:

- The current patchwork of provision prevents many women from re-entering the labour market after their children are born. Women with children are less likely to work in Britain than elsewhere in the OECD, despite the relatively high rate of female employment in the UK labour market.[8] Long-term demographic and social trends, combined with the squeeze on family incomes, will require the UK to maximise employment participation.
- The lack of decent, affordable childcare exacerbates gender inequality. The 'motherhood penalty' in the UK labour market remains stubbornly high. The gender pay gap for women and men under the age of 30 has all but disappeared, but rises steadily for women in their 30s, 40s and 50s. Research indicates that there are many women working beneath their labour market potential due to the lack of affordable childcare combined with too few opportunities to work flexibly.[9]
- There is strong evidence that upfront investment in universal childcare would more than pay for itself. Research by IPPR demonstrates that investment in childcare would generate significant returns to the UK exchequer. Cost-benefit analysis estimates a return of £20,050 over four years in tax revenue, minus the cost of childcare for every woman who returns to full-time employment after one year of maternity leave.[10] Similar research in Denmark calculates that subsidised, universal

8. Ben-Galim, ibid.
9. Cabinet Office (2007), 'Fairness and Freedom: The Final Report of the Equalities Review', London: HMG.
10. Ben-Galim, ibid.

childcare generates a net return of €37,000 over the course of a woman's lifetime.

- Effective early years provision will reduce child poverty and boost social mobility. High-quality early years provision improves outcomes for all children, in particular children from low-income households, and children with special educational needs. The Effective Provision of Prechool Education study showed that structured preschool provision improved children's literacy, numeracy and cognitive skills, helping to move large numbers of children in low-income households out of poverty. The Nordic countries, with universal childcare systems and highly redistributive tax and benefit policies, have the highest rates of social mobility in the industrialised world.[11]
- If childcare is left to the market, this creates both inefficiency and inequity due to market failure and information asymmetries. The Institute for Fiscal Studies argues that parents may 'under-utilise' preschool provision, since awareness about the long-term benefits is generally low.[12] Local childcare markets face problems of sustainability, fragmentation and rising costs (making voluntary and community sector providers particularly vulnerable), creating barriers to accessing childcare and the sustainability of preschool provision. The case for government intervention remains strong.

A new policy agenda

If the goal of a future Labour government is a universal early years and preschool service for all one-to-four-year-olds in England, tough choices will need to be made given the current state of the public finances. The UK government presently spends £2.755bn a year funding 15 hours a week of free childcare for all three- and

11. Gosta Esping-Andersen (2009), Incomplete Revolution: Adapting Welfare States to Women's New Roles, Cambridge: Polity Press.

12. Institute for Fiscal Studies (2005), 'Poverty and Inequality in Britain: 2005', Commentary No. 99, London: IFS.

four-year-olds, alongside the 20 per cent of most disadvantaged two-year-olds. IPPR estimates that extending 15 hours a week to all one- and two-year-olds will cost approximately £3bn a year. Increasing the number of hours from 15 to 25 a week for all children from ages one-to-four would cost a further £3.735bn.

The additional resources required for shifting towards a universal system of preschool provision for one-to-four-year-olds are considerable: an estimated £7bn per annum. This could be partially achieved by using existing resources more efficiently:

- Tax credits and tax reliefs could be merged into a single system of coverage for all parents, targeting low-income households.
- Local authorities could be legally required to 'join up' and share services, while greater collaboration will reduce bureaucracy and overheads.
- Establishing 'children's budgets' at national and local level would ensure greater transparency and accountability around public spending on children and the case for investment.
- A programme of 'co-production' involving parents and the community in the management and running of childcare centres has the potential both to reduce costs, and to improve outcomes for children and families. Co-production is a form of partnership between citizens and public services, where individuals give time and expertise in return for greater influence over how services are run.

The coalition government's long-term vision is to make childcare fully tax-deductible, giving families freedom over how to spend their money. However, this does nothing to solve problems of inadequate supply and market failure in the childcare market; nor would creating a 'childcare tax allowance' do anything to leverage quality in the childcare and early years sector. Nonetheless, a major extension of public provision will inevitably require new sources of revenue. Options could include:

- **Shifting resources from tax credits into childcare services, giving the government greater leverage over quality.** The government spends £7bn a year on childcare (including both demand- and supply-side interventions), plus a further £19bn on child tax credit. Too little is invested in long-term capacity and improving quality on the supply side of the childcare system. There is a case for changing the balance of resources. Holding child tax credit at its current level would generate substantial savings.
- **Freezing current benefits such as child benefit and tax credits to generate additional funding for early years provision.** Child benefit costs the UK government £11.7bn a year: a two-year freeze on child benefit would generate savings of around £500m, while a general cash freeze on all welfare benefits would save £4bn a year. However, freezing all welfare payments would have a detrimental impact on child poverty.
- **Reducing other welfare entitlements, such as free bus passes and TV licences for high-income pensioners, to pay for childcare.** Free travel for the over-60s costs central government around £1bn a year, while curtailing eligibility from 60 to 65 would save £60m. If better-off pensioners were to forgo winter fuel payments, free TV licences and free bus travel, savings of £1.4bn a year would be generated.[13]
- **Reforming the system of wealth taxation to generate additional revenues for investment in childcare.** For example,

13. The Nuffield Trust (2012), 'Reforming Social Care Report', 23 May.

a capital receipts tax on 'lifetime gifts', replacing an inheritance tax on 'estates' would generate an additional £1bn per annum.[14] A 'lifetime gifts' tax is a tax on all gifts over a certain sum. Restricting pension tax relief to the basic rate of 20 per cent could generate a further £7bn a year. A reformed system of local taxation with updated property valuations and a 'mansion tax' on homes worth more than £2m have the potential to raise significant further sums.

Conclusion

Clearly, none of these options would be politically uncontroversial for a future Labour government. While raising taxes on the wealthy is often seen as most politically palatable, taxes on capital and property have to be carefully structured and designed. Attempts to reform local taxation, not least the poll tax, have been a graveyard for generations of politicians. Taking valued benefits away from older people, among the most likely in the population to vote, is politically risky. At the same time, the savings involved are relatively modest, and there are inequalities in the elderly population; any withdrawal of support has to be undertaken sensitively. Shifting resources from benefits and tax credits to services makes it harder for a Labour government to meet its ambitions on child poverty. In reality, a combination of all four options will probably be necessary to generate sufficient resources.

> “None of these options would be politically uncontroversial for a future Labour government”

As such, there are real choices to be made; but despite the tough fiscal climate, there is no reason why a future Labour government should not commit to a radical extension of the welfare state, underpinned by a universal system of 'Nordic' childcare and early

14. Tony Dolphin (2010), 'Death and Taxes: Why Inheritance Tax Should be Replaced with a Capital Receipts Tax', London: Institute for Public Policy Research.

years provision. Universal childcare is both a sound economic policy, increasing employment rates and boosting family incomes, and a sound social policy, tackling inequality, widening social mobility, and improving outcomes for children. It ought to be a central strategic ambition for the next Labour government.

Questions to debate:

1. Is it fair that older people on higher incomes should share the costs of funding a universal childcare system in England?
2. Do you support the principle of directing resources from the demand side (including child tax credit) into supply-side investment addressing the quality, sustainability and accessibility of childcare?
3. How can parents and communities be properly involved in running and managing children's centres?

Adult social care

The financing of long-term care is one of the most intractable public policy issues. In truth, successive governments have avoided taking long-term decisions on how best to provide care for older people, fearing there will be more 'losers' than 'winners'. This has to change; indeed, inaction is no longer an option. Social and demographic pressures are leading to rising demands for care, while budgets are being squeezed as never before. Families themselves are under enormous pressure, feeling the 'pinch' in the aftermath of the longest recession in peacetime history. Creating a comprehensive system of social care will demonstrate that Labour has a long-term governing project for Britain, and a clear plan for the country's future.

Labour's period in government and the coalition's record

- Between 1997 and the financial crisis in 2008, public spending on adult social care in England and Wales rose by 53 per cent, an average increase of 4.3 per cent a year.
- The white paper Modernising Social Services introduced national minimum standards, performance assessment of local councils, and independent inspection of all care services.
- New bodies were established such as the Social Care Institute for Excellence and the General Social Care Council to promote quality and drive up standards.
- Measured against national standards set by the Care Quality Commission, 95 per cent of councils were rated as 'good' or 'excellent' for social care and no council was assessed as 'poor' under Labour.
- The quality of care improved year on year, with 77 per cent of providers rated as 'good' or 'excellent' by 2009-10.[15]
- Labour in government pioneered the 'personalisation' agenda, tailoring services to the needs and aspirations of citizens: disabled people could opt to receive payments in lieu of directly provided care, prompting a shift towards 'personal budgets' in the social care system.
- Labour's policy in the 2010 election was to create a National Care Service, initially offering free personal care at home for those with the highest needs.
- Despite promising legislation in the second session of the parliament, the coalition government has delayed plans to overhaul long-term care, and has yet to respond fully to the Dilnot Commission.

15. Care Quality Commission (2010), 'Annual Report 2009-10', London: CQC.

The policy challenges facing Britain and the rationale for government action

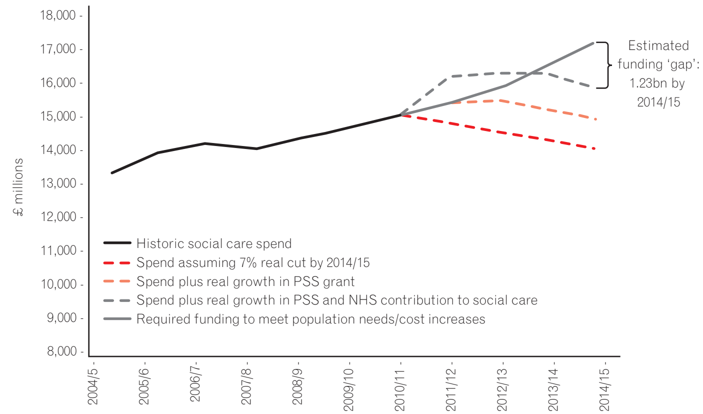
Delaying reform of the current social care system is counterproductive, since long-term costs will merely rise even faster, while the system remains inadequate to meeting the challenges of the future:

- The social care system in England was originally conceived in 1948 and is not the legacy of a single, bold reform like the National Health Service.
- A 65-year-old can expect to need care costing £30,000 on average during retirement, while there are enormous variations in costs. Twenty per cent of people need care costing less than £20,000, but a further 20 per cent require care costing in excess of £50,000 a year. One in 10 people will face care costs of more than £100,000 during their lifetime.[16]
- The Office for Budget Responsibility estimates that UK public spending on long-term care will rise from 1.2 per cent to 1.7 per cent of GDP by 2030.[17] This represents growth of over 40 per cent, and is driven by demographic and social change. The OBR recently cautioned that 'the ageing of the population ... has the greatest impact on the future outlook for the public finances.' Research by The King's Fund demonstrates the extent of the social care funding gap due to cuts in the central government grant to local authorities, as set out in the table below:

16. Andrew Dilnot (2010), 'The Report of the Commission on Funding of Care and Support', London: Department of Health.

17. Office for Budget Responsibility (2010), 'Economic and Fiscal Outlook: November 2010', London: HMG.

Future Social Care Spending – The Funding Gap[18]



- Until now, the state provided social care to those on the lowest incomes who could not afford to pay for themselves. Even those who did qualify for state help had to cope with a system that had major weaknesses, including the wide variation in standards and quality of care offered by different local authorities and the adverse consequences of a 'postcode lottery'. Current provision is inadequate: the Dilnot Commission estimates that over the last four years, demand has outstripped supply by nine per cent, while 300,000 people are estimated to have unmet care needs.[19]
- Resources are poorly targeted at local level and there is insufficient investment in prevention and early intervention, increasing pressure on the NHS.
- Those on higher incomes with assets over £23,250 have been expected to meet their own care costs with no support from

18. Richard Humphries (2011), 'Social Care Funding and the NHS: An Impending Crisis', London: The King's Fund.

19. Dilnot, ibid.

the state, using up savings and the value of their home in order to pay for care. As life expectancy rises and care costs continue to increase, families face real uncertainty about how to meet long-term care needs. Since future care costs are unknown and impossible to predict, there is a strong case for 'risk-pooling' and a clear rationale for government action given the failure of private insurance markets.

- Raising the employment rate further, particularly for women and older workers, means that families need help to care for elderly relatives, particularly those with acute needs. An employment rate of more than 80 per cent would help raise family living standards when the scope for income transfers is low, while generating higher tax revenues for long-term investment in public services and social protection.

A new policy agenda

The government currently spends £14bn a year on adult social care in England and Wales. However, this is poorly targeted and investment in care services does not always deliver effective outcomes. There is potential for cost savings through more effective early intervention and prevention:

- According to Turning Point, more can be achieved when resources are used jointly across the health and social care system. Integrated early intervention can generate savings of up to £2.65 for every pound spent.[20]
- Prevention and early intervention programmes for older people reduce emergency hospital admissions, producing £1.20 savings in emergency bed days for every £1 of additional investment.[21]

20. Turning Point (2010), 'Benefits Realisation: Assessing the evidence for the cost benefit and cost effectiveness of integrated health and social care', London: Turning Point.

21. Personal Social Services Research Unit (2011), 'Projections of, Demand for, and Costs of, Social Care for Older People in England, 2010 to 2030, under Current and Alternative Funding Systems', Discussion Paper 2811/2, London: London School of Economics and University of Kent.

- Greater collaboration and sharing of services at local level generates significant cost savings, more necessary than ever given that local government will have to cut £11.3bn from its annual budget by 2015.
- There are significant savings and improved outcomes through the 'personalisation' agenda in social care, entailing both direct payments and personal budgets. This is central to transforming the care system from 'crisis response' to the promotion of independence and wellbeing, although there are concerns that some groups such as those with dementia and those with mental health needs are not benefitting from the 'personalisation' approach.

Nonetheless, creating a system of comprehensive long-term care will require tough decisions about how to fund and manage social care provision. Labour recently endorsed the proposals of the Dilnot commission:

- Dilnot advocated a 'shared responsibility' model where both the state and the individual make contributions towards the costs of care.
- The commission recommends that an individual's payment to future care costs should be capped at £35,000. The asset threshold for those in residential care beyond which no means-tested help is given will rise to £100,000. This proposal would have cost approximately £1.7bn in 2011-12.
- There are compelling arguments against funding social care purely through general taxation, both on equity and efficiency grounds. Expecting those currently in work to fund

an overhaul of long-term care would amount to a significant intergenerational redistribution in favour of older people.

- Meanwhile, the cohort in the UK aged over 50 currently has an unprecedented level of housing equity, currently estimated at £937bn.

Dilnot will not solve the care crisis overnight, but it does establish important principles, in particular updating the basis of the welfare state as a social insurance mechanism.

Options for funding a long-term social care system building on the Dilnot report include the following:

- **A general five per cent levy on all estates in England** would currently raise £3bn a year, as would a **'lifetime gifts tax',** while a **'mansion tax'** would potentially generate a further £2.5bn.
- **Alternatively, 'welfare for the wealthy' might be reduced:** scrapping winter fuel payments, free travel and TV licences for better-off pensioners would raise £1.4bn per year. Levying national insurance on higher-income pensioners would raise a further £0.8bn a year.

Conclusion

The funding of long-term care for the elderly is an unavoidable issue for the next Labour government. Incremental change will not give the country the comprehensive system of social care it needs. Instead, bold reforms are required, matched by clear decisions on funding. There is certainly a credible 'something-for-something' approach, where relatively wealthy pensioners from the 'baby-boomer' generation forgo benefits today in order to create a sustainable social care system for the future. At the same time, unlocking unused housing equity has distinct advantages, particularly as benefit savings from those on higher incomes might be needed to fund a universal childcare system.

Labour has taken a brave decision to build agreement on Dilnot, since long-term consensus will be needed to achieve lasting change. Social care will undoubtedly be a priority for a future Labour government. Even in an era of greatly constrained resources, the party can still aspire to be a radical, reforming government if it has the courage to face up to tough decisions and hard choices.

Questions to debate:

1. Should funding social care come only out of general taxation, or would this amount to a significant intergenerational redistribution from today's workforce to older people?
2. Do you support the principle of taxing property and wealth in order to pay for key Labour priorities such as the long-term funding of adult social care?
3. How can local authorities be supported to improve outcomes in adult social care by sharing services and collaborating with partners? What further scope is there for 'co-production' of services?

Labour's Progressives

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