

Institute for Public Policy Research



THE DECADES OF DISRUPTION

NEW SOCIAL RISKS
AND THE FUTURE OF
THE WELFARE STATE

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SUMMARY

1. A number of major disruptive forces will transform life in the UK and globally in the 2020s and beyond, creating a new set of social risks.

Western welfare states were conceived in the post-war era of industrial societies, stable family structures, defined gender roles and limited globalisation. Since then the western world has changed beyond recognition, with the rise of more socially liberal, individualised and globalised post-industrial societies. These transformations are set to continue – and will be joined by a plethora ‘new social risks’ – in what we call the ‘decades of disruption’ to come (Lawrence 2016). These disruptions will result from *existential risks*, such as environmental breakdown and the threat of new infectious diseases; growing *demographic pressures*, in particular our ageing population; as well as political shifts such as Brexit and ongoing socio-economic trends; notably technological change.

2. In the Covid-19 crisis, government financial assistance has been the decisive factor in protecting businesses and livelihoods, but it has fallen short.

Covid-19 is not just a profound health crisis but also a severe economic shock. The pandemic itself – and the measures necessary to contain it – has created a ‘sudden stop’ in economic activity that left unchecked will result in significant hardship for many. The government was forced to rush through emergency reforms to our welfare system in the midst of an economic crisis. Despite the boldness of the measures, they have sometimes been too slow to reach those who need them, have excluded certain key groups¹ and – despite a multi-billion pound price tag they will ultimately be insufficient to prevent high unemployment and severe income shocks for many.

3. We can learn from the response to this crisis to create the stronger welfare settlement we will need to tackle new social risks and prevent inequality from growing.

The disparity in protections offered to different groups from the schemes establishing during the Covid-19 crisis is stark. Those already in employment entitled to 80 per cent of their earnings or up to £2,500 from HM Treasury schemes, while those who are not eligible for the schemes, lose their job or are already unemployed, are forced to claim universal credit, which had an average pre-Covid-19 crisis value of £720 per month while gaps in access to sick pay persist. Recognition of the increase in unpaid care hours being provided in the crisis – largely by women – has been entirely absent from the welfare and economic response. All of this threatens a growth in existing inequalities. We can take the same approach for future disruptions or we can learn from this crisis how to create a more equitable response for the future.

1 Such as those on fixed term and zero-hours contracts, those who are newly self-employed, only part self-employed or who work as an incorporated micro-company.

4. The economic shock resulting from the pandemic follows a ‘great risk shift’ experienced by people in the UK over recent decades.

Successive governments have cut state funding for and access to collective welfare provision such as higher and further education, social care and social security. Likewise, employers have also passed on risk to the individual through alternative employment contracts which reduce entitlements such as parental leave and sick pay. This means that the costs of ill health, unemployment, becoming a parent and having a disability, have increasingly been borne by individuals, rather than by employers or the state compared with four decades ago. This shift, alongside a decade of disinvestment in the welfare system has resulted in five ‘social deficits’ which compromise our ability to withstand further disruptions.



HEALTH

The slowdown in the lengthening and quality of life experienced across the UK – and the growing inequalities up and down the country.



CARE

The inequalities in access to, quality of and cost of the care people receive across the life course – and the inequalities in who is providing it.



SKILLS

The growing number of people locked into low-pay, low-skill jobs at the same time as businesses suffer from ‘skills gaps’ and low productivity.



SECURITY

The rise of low pay, poverty and economic insecurity which is resulting in many going without the basic goods and services required for a good life.



COMMUNITY

A weakening in the social bonds between people – both within local communities and across the country – that are crucial for individual and societal flourishing.

5. It is clear that we need to ‘future-proof’ our welfare state, but historically, welfare states in the UK and across Europe have remained ‘frozen’ in the face of new social risks.

The lesson from shocks like Covid-19 would seem clear: that we must ‘future-proof’ our welfare state now to ensure we are ready for them. However historically there has been institutionalised resistance to reforming the welfare state among key voter groups. Contrary to popular belief, it is the middle classes who are the greatest beneficiary of social security entitlements in the form of pensions and health spending. Combined with the fact that older people are more likely to vote, this creates a powerful political coalition and can crowd out the fiscal space to respond to new challenges (Pierson 2011), making reform of the system highly challenging. Given that younger people and the most disadvantaged are typically disproportionately affected by recessions, with lasting ‘scarring’ affects, this raises important questions about how we can best ensure our welfare state is serving each and everyone of us.

6. It is for this reason that IPPR is launching a major new programme, *New social risks: The future welfare state*.

Escaping from ‘path dependence’ will only happen if there is a strong social and political consensus for change, with the support of coalitions formed across economic, demographic and political fault lines. Over the next year the programme will therefore listen to the thoughts and views of a wide range of individuals and groups across the country, seeking to understand the welfare state as experienced by the people who use it and work in it all over the country. We will draw on the experiences of a diverse charity network and our findings will be shaped by an advisory group whose members have been drawn from across our society. The goal of the programme will be to reimagine the welfare state that emerges from the Covid-19 crisis. It will set out the necessary shifts in our conception of the welfare state – *who* it is for as well as *what* it is for – and what our society might look like, if we are to come together to negotiate the shared challenges of the future.

The background is a solid yellow color with several large, semi-transparent gear shapes scattered across it. A large, faint circular shape, resembling a sun or a large gear, is positioned in the upper left quadrant. The text '1.' is located in the upper left, and 'CONTEXT' is in a white box below it.

1.

CONTEXT

INTRODUCTION

Our economy is failing to deliver ‘prosperity and justice’ for the majority of people in this country. This is the argument made by IPPR in its landmark Commission on Economic Justice (CEJ) (CEJ 2018). At root, this was a failure of government policy resulting from a paradigm shift in economic thinking in the 1970s. Inspired by free-market economic ideas, policymakers stepped back from shaping economic processes and outcomes, leaving it to individuals and the market instead. The result has been rising inequalities, stagnant productivity and growing economic instability.

The combined power of states, industry and civil society is needed to deliver ‘the good economy’. This means firstly, ensuring that everyone achieves a basic minimum standard of living. Secondly, narrowing inequalities in wealth, income and power across both people and places. Thirdly, unlocking the potential of all people and the economy as a whole. Fourthly, creating a stable and cohesive society. And, finally, protecting the future as well as the present, by putting environmental sustainability at the heart of everything we do.

This brighter future is achievable but requires a bold reform agenda that “hardwires the economy for justice” (CEJ 2018). This undoubtedly means fundamental structural reform to the economy. But, in truth, economic reform is a necessary, but not sufficient condition to achieve this goal. Policymakers must also utilise their other main policy lever: the welfare state. This includes both resource transfers (through the benefits system) and resources in kind (public services such as schools and the NHS). Indeed, these two areas of policy must be used in tandem to create the kind of economy and society where everyone flourishes.

Free-market ideas have also reshaped social security over recent decades. This has included efforts to control, or reduce, spending per person and introducing more means-testing and conditionality into the benefits system, as well as greater choice and competition in public services. On the whole, these reforms have not worked. This is most clearly evidenced by the rise of five killer ‘social deficits’ (Quilter-Pinner and Hochlaf 2019).



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These deficits demand fundamental reform of our welfare state. The next few decades of this century are likely to be ‘decades of disruption’, in which global trends will reconfigure our society in profound ways. These trends include existential risks, notably environmental breakdown and infectious disease; growing demographic pressures, in particular our ageing population; and ongoing socioeconomic trends, not least technological change. Left unchecked these trends threaten to exacerbate the social deficits set out above.

This is being vividly demonstrated (at the time of writing) by the ongoing Covid-19 pandemic. Covid-19 is a profound health crisis but it is also a major economic shock. The pandemic itself – and the government’s response to it – have created a ‘sudden stop’ in economic activity. Despite new measures to support businesses through the crisis there will be – indeed there already has been – a huge spike in unemployment. The government has therefore rushed to undo a decade of austerity in our welfare system – including an increase to the universal credit baseline payment – but (as we will set out) this is unlikely to prevent significant hardship for many.

The lesson we must therefore draw from the Covid-19 pandemic is clear: we cannot wait for shocks to overwhelm us but must instead ‘future-proof’ our welfare state to be ready for them. Only by properly funding and reforming social security and public services can we get to grips with the social deficits we face as a country. And, it is absolutely vital that we do. The case for action is moral, in order to deliver a fair and socially just society; economic, in order to deliver improved productivity shared economic growth; but also, political. It is a prerequisite for combatting the rise of populism and polarisation that is damaging our politics and social cohesion.

Therefore, the questions we must answer moving forward are: who and what is the welfare state for, both now and in the future? How can the shifts needed to ‘future-proof’ the welfare state be realised? This is the focus of IPPR’s new programme on ‘New social risks’ which will be undertaken throughout 2020 and report back in 2021. This introductory paper sets out the context for this programme and begins to establish the contours of a response which will be required in the years to come. Section 2 focusses on the five social deficits set out above while section 3 sets out five big social, economic and political shifts that must guide our response.

“ The lesson we must therefore draw from the Covid-19 pandemic is clear: we cannot wait for shocks to overwhelm us but must instead ‘future-proof’ our welfare state to be ready for them.

2.

FIVE

SOCIAL

DEFICITS

FACING

THE UK

IN 2020

2.1 THE HEALTH DEFICIT

The 20th century saw a revolution in population health in the UK but the 21st century has been more challenging.

Across the nations of the UK, life expectancy grew almost continuously – by around 30 years on average – throughout the 20th century (ONS 2015) (see figure 2.1). Mortality rates fell in both sexes, across all ages. This is a staggering transformation in human health, described as the ‘great escape’ by Nobel Prize winning economist Angus Deaton. But since 2011 there has been an unprecedented slowdown in life expectancy. For example, between 2011 and 2018 life expectancy in England increased by just 0.5 years in males and 0.2 years in females, compared with 2.2 and 1.7 years respectively in the preceding seven-year period 2004 to 2011 (Raleigh 2019) (see figure 2.2). Similar trends are seen across all constituent UK countries (Marshall et al 2019). While there have been similar declines across many other European countries and the USA, the slowdown has been more pronounced and rapid in the UK (ibid).

FIGURE 2.1: LIFE EXPECTANCY AT BIRTH, MALE AND FEMALE, UK

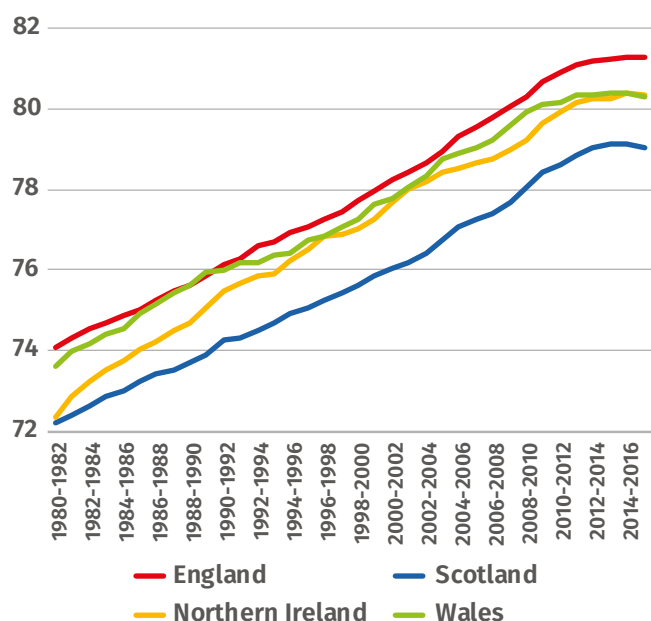
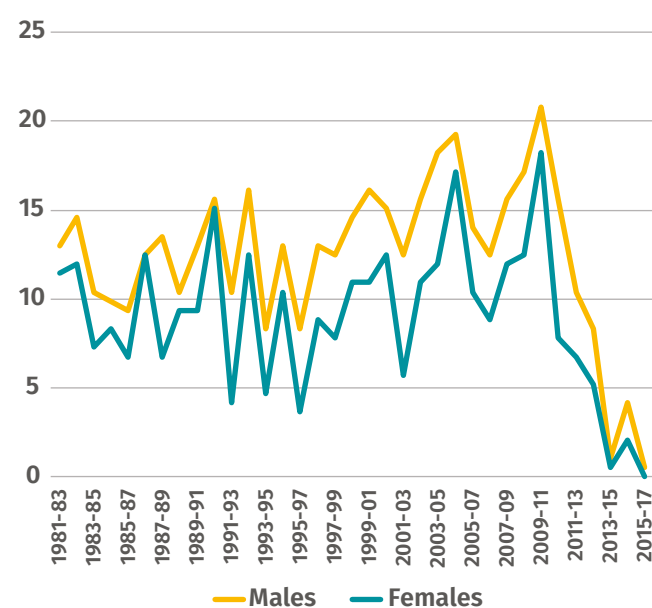


FIGURE 2.2: ANNUAL CHANGE IN LIFE EXPECTANCY AT BIRTH IN WEEKS, MALES AND FEMALES, UK



Source: ONS (2019a)

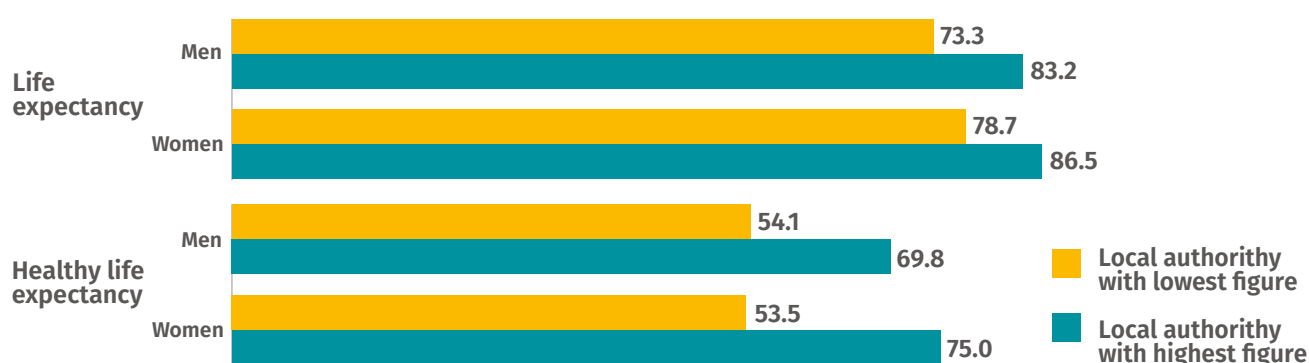
People are living longer in ill-health.

Although increases in life expectancy have been limited in the last decade, they have still outpaced increases in healthy life expectancy. The proportion of life spent in ill-health in the UK has increased, from 20.1 per cent to 20.5 per cent for males, and from 22.6 per cent to 23.3 per cent for females between 2009–11 and 2016–18 (ONS 2019d). This is part of a shift in the disease burden from infectious and acute disease towards chronic illness and long-term conditions (LTCs). Examples include diabetes, arthritis, depression and dementia. In England today, over 15 million people have an LTC, many suffering from multi-morbidity (more than one simultaneously), with the numbers set to increase in the years to come. The issue of mental ill-health is particularly concerning (see box 2.1).

We face large and growing inequalities in health.

There is a life expectancy gap between people in the best and worst performing areas in the UK of 9.9 years for men and 7.8 years for women. This gap increases to a staggering 15.7 years and 21.5 years when we consider healthy life expectancy for men and women respectively (Finch 2018). Furthermore, the evidence suggests whilst this gap has remained relatively constant for healthy life expectancy, inequalities in overall life expectancy have been growing (ibid). These inequalities have many causes including the social determinants, access to high quality healthcare, lifestyle factors and our genetic makeup. Crucially, they are shaped by policy decisions: studies have pointed to the success of previous governments in narrowing health inequalities through concerted social strategies which have been largely abandoned since 2010 (Barr et al 2017).

FIGURE 2.3: INEQUALITIES IN LIFE EXPECTANCY AND HEALTHY LIFE EXPECTANCY BY LOCAL AUTHORITY, LOWEST TO HIGHEST, UK, 2015-17



Source: Finch (2018)

BOX 2.1: MENTAL ILLNESS

Mental ill-health is now one of the most significant health challenges facing people in the UK. The latest national survey shows that one in six adults have a common mental disorder (CMD), with women more likely to suffer than men (NHS Digital 2014). Other disorders such as psychotic disorder, autism, bipolar disorder and drug and alcohol dependence are rarer (ibid). Available survey data seems to show a small but steady increase in the prevalence of mental health conditions in the UK over time. For example, the percentage of people experiencing severe CMD symptoms has increased from 6.9 per cent in 1993 to 9.3 per cent in 2014 (ibid). Among young people (aged five to 15) there has been an increase from 9.7 per cent in 1999 to 11.2 per cent in 2017 (NHS Digital 2017). These increases are likely to be a result of not just increased prevalence but also increased diagnoses and a reduction in stigma.

The case for action to address the 'health deficit' is both moral and economic.

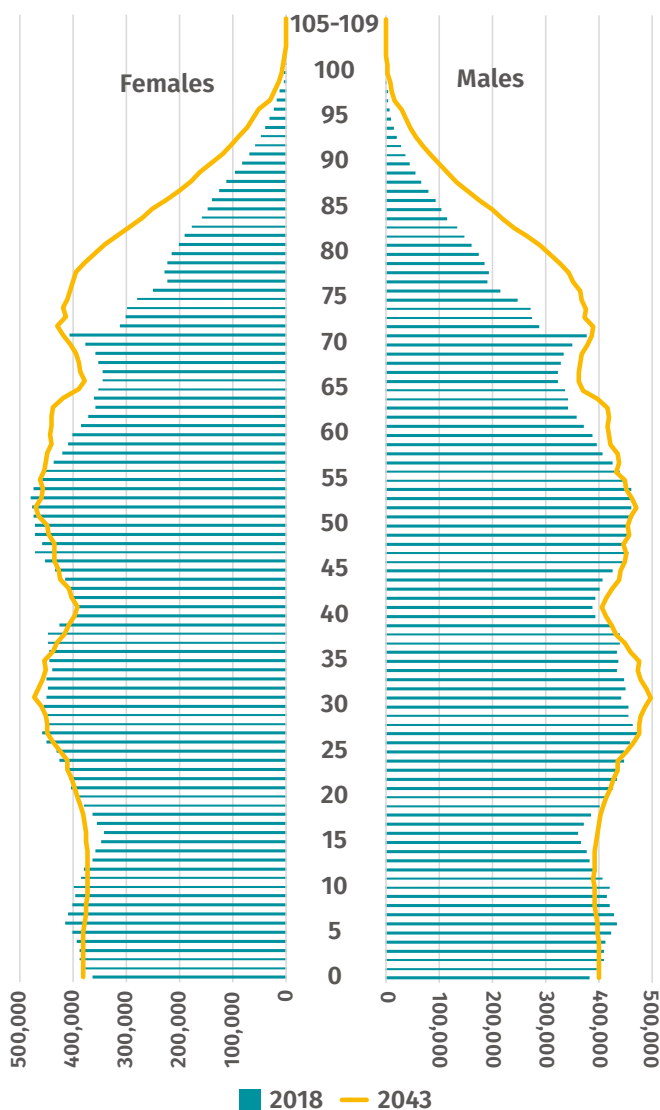
There is a strong moral case for more action to address the health deficit. Health is of intrinsic value to individuals. This is because, as Amartya Sen has long argued, it is a core 'capability' required for human flourishing (Sen 1999). But improved health outcomes also increase human capital – meaning an individual's capabilities and assets – which leads to an increase in their economic potential (Grossman 1972, Monterubbianesi et al 2016, Brown et al 2019). If a country's population as a whole sees an increase in health outcomes this should in turn increase productivity and economic growth. In the UK this effect is largely likely to be the result of increased productivity in the workplace and less absenteeism and a demographic dividend due to larger working populations (through healthy ageing).

2.2 THE CARE DEFICIT

The UK is undergoing a demographic transition.

The proportion of the population aged 65 and over has increased from 14 per cent of the population in 1975 to 18 per cent in 2018 (McCurdy 2019). The trend at older ages has been even starker: over the past 30 years the proportion of people aged 90 and over has more than doubled. These trends are set to pick up pace in the years to come (see figure 2.4). By 2043 the number of people over the age of 85 – the ‘oldest old’ – will double (ONS 2019b). This transformation is driven by a combination of increased life expectancy (see section on the health deficit), but also a decline in the birth rate driven by contraception use and changing gender roles. These changes both increase the demand for care amongst the elderly, as well as among younger people and those of working age, at the same time as reducing the supply of carers, with fewer younger people to undertake caring responsibilities.

FIGURE 2.4: AGE STRUCTURE OF THE UK POPULATION, 2018 AND 2043



Source: ONS (2019b)

There has been a significant change in social attitudes towards relationships, work and family.

There are two key elements to this shift. The first is growing female labour market participation which has risen in the UK from around 50 per cent in 1970 to 72.4 per cent in 2019 (figure 2.5) (ONS 2020a). This is set to increase in the coming decades (Hoff et al 2015). The second is a change in attitude towards sex and relationships, with lower rates of marriage and increasing rates of divorce (ibid). The result is a rise in heterogeneous family structures including lone parents, cohabiting couples with children and ‘reconstituted families’.² These trends have combined to significantly reduce the supply of care from adult children (though a growing number of older partners and relatives are stepping in).

Together these trends have resulted in a sizeable ‘care gap’ that is set to grow in the future.

Demographic pressures are driving an increase in the demand for care which is outstripping supply. This is creating a significant ‘care gap’ in the UK. Some are able to afford to pay for private care - which is a growing market for both older people and children in the UK (Age UK 2019a). But many – Age UK estimates 1.5 million older people in England alone (Age UK 2019b) – are simply going without the care they need. These people are far more likely to be from more disadvantaged backgrounds. This challenge is set to grow in the future with Age UK estimating that unmet need could affect 2.1 million people by 2030 (ibid). Another study estimates that by 2035 the UK will have a shortfall of 2.3 million carers (Brimblecombe et al 2018).

² Defined as families headed by two parents with children from a previous relationship.

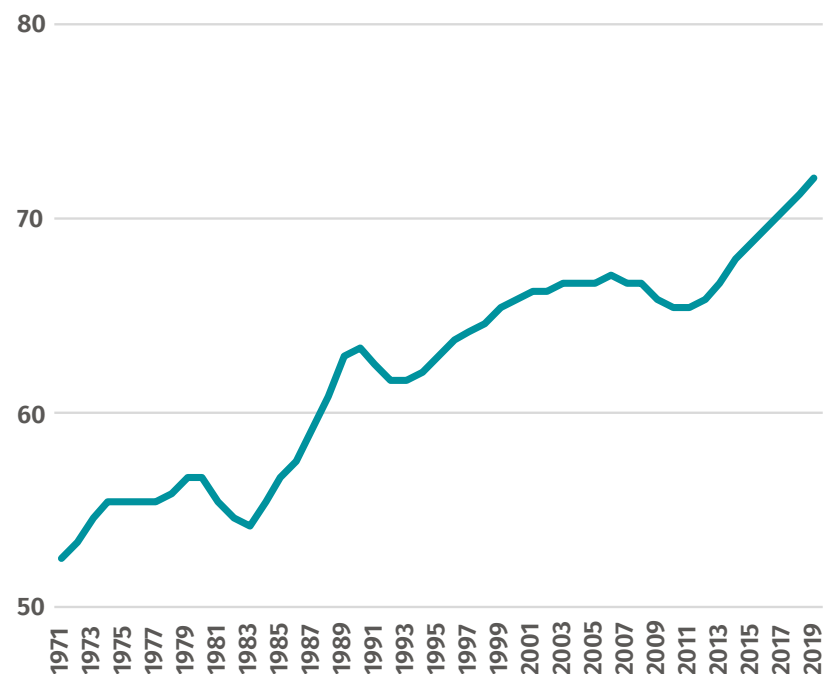
BOX 2.2: THE COST OF INFORMAL CARE

Informal carers make a huge contribution to economic and social outcomes in the UK. Estimates suggest that if it was fully reimbursed the value would be in excess of £139 billion per year (Glover 2018). This is similar to our total investment into the NHS and seven times the UK's total annual spend on adult social care (ibid). But providing unpaid care is highly demanding. Notably, carers are much more likely to reduce their working hours or drop out of the labour market than non-carers (Hoff et al 2015). Carers are also more likely to be women, meaning that our current system and social norms around informal care are a barrier to gender equality (ibid). Finally, there is growing evidence that informal care takes a heavy toll on carers in terms of health and wellbeing (ibid).

Despite this, the state has been stepping away from the provision of formal care to fill this gap.

Over recent years the state has been stepping back from the provision of formal care. Social care spending fell consistently during the first half of the last decade. Whilst it has been growing again since 2015 it still not met its pre-austerity peak of £22 billion (already an underinvestment) (Quilter-Pinner 2019). The result has been a significant decline in the number of people receiving state funded care. This has been somewhat compensated by more people (who can) paying for their own care (with private funders often cross-subsidising state-funded care recipients) and receiving informal care from families. But it has also resulted in significant and growing unmet need (ibid). The picture in the childcare sector is more positive with successive governments increasing their financial commitments to state funded care (see box 2.3). But this is still far from enough to secure high quality childcare for all.

FIGURE 2.5: FEMALE EMPLOYMENT RATE (AGES 16-64), UK, SEASONALLY ADJUSTED



Source: ONS (2020a)

BOX 2.3: CHILDCARE

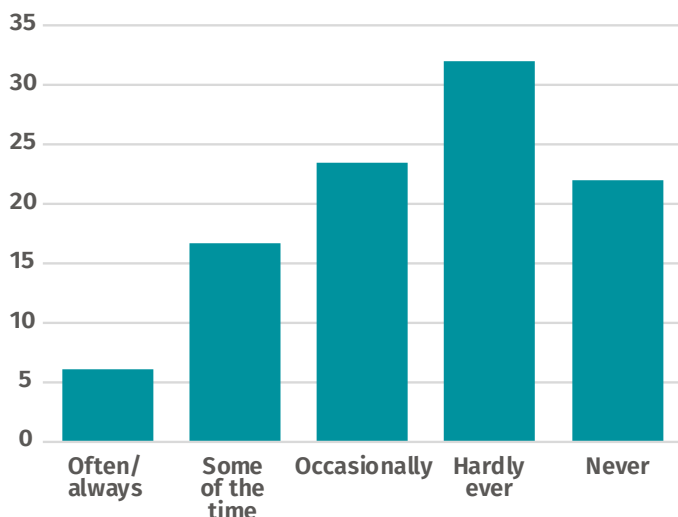
Investment in childcare has grown in recent years but still falls below other advanced countries. In 1998, four-year-olds in England were given an entitlement to 12.5 free hours of early learning per week for 33 weeks of the year. By 2017 this had extended to 30 hours per week during term time for all disadvantaged two-year olds and all three- and four-year-olds with working parents. The government now spends over £3 billion annually on funded childcare places (IFS 2019). However, compared to other countries the UK is still underinvesting. For example, the UK currently spends 0.5 per cent of GDP on early childhood services compared to 0.7 to 1.1 per cent in the Nordic nations. There is also evidence that the quality of care is variable and that those who need it most struggle to access free childcare. In particular, areas with higher levels of deprivation tend have poorer quality provision, leaving the children who most benefit from high-quality childcare without it (Mathers and Smees 2014).

2.3 THE COMMUNITY DEFICIT

The UK is facing an epidemic of loneliness.

Over a fifth of people in the England say that they ‘often’ or ‘sometimes’ feel lonely, with only around half saying ‘never’ or ‘hardly ever’ (ONS 2020b).³ Those who are female, younger, single, unemployed, ill or disabled are more likely to experience loneliness (ibid). There are a number of trends that suggest loneliness could get worse. Notably, estimates show that there are a growing number of people who live alone in the UK (around one in six) - and this number is set to get grow in the 2020s (ONS 2019c). Likewise, studies show that people in the UK have fewer close friends than in other countries (Snapchat 2019) and meet socially with friends, relatives or work colleagues less than they used to (ONS 2020b).

FIGURE 2.6: REPORTED FREQUENCY OF LONELINESS IN ADULTS, ENGLAND, 2018/19

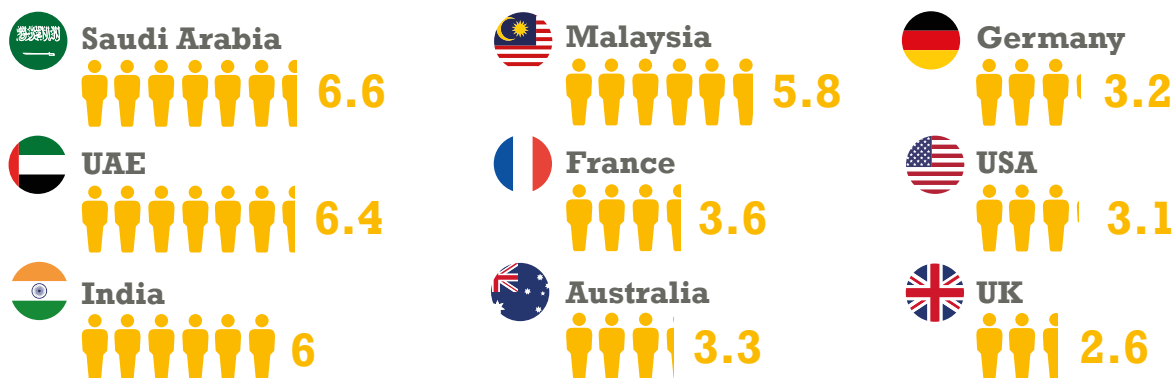


Source: ONS (2020b)

There have also been declines in some broader measures of social capital in the UK.

Recent data from the ONS shows that over the last decade there have been declines in the proportion of people in the UK who regularly stop and talk with people in the neighbourhood; borrow things and exchange favours with their neighbours and agree or agree strongly that they felt they belong to their neighbourhood (ONS 2020b). However, unlike in the USA, there is less evidence this is part of a longer-term secular decline. By contrast, there has been a longer-term decline in participation in associations and voluntary organisations (especially trade unions, church groups etc) with each successive generation less likely to participate (Patel 2016). Austerity has also had a significant impact on the voluntary sector, particularly small local community organisations in more deprived areas (Jones et al 2015, Chapman and Hunter 2017). However, this has not fed through to a reduction in volunteering which seems to have remained roughly stable (ONS 2020b).

FIGURE 2.7: AVERAGE NUMBER OF BEST FRIENDS PER PERSON, VARIOUS COUNTRIES



Source: Snapchat (2019)

³ Comparable data is not available across the four nations of the UK.

These trends have likely been exacerbated by declines in public space.

This is most clearly seen on the high street, where spending has been in decline (see figure 2.8) and one in 10 shops are currently vacant across Great Britain (Brett and Alekeson 2019). This trend is more acute outside of London – and particularly in Wales and the North (see figure 2.10). Meanwhile, almost a fifth of libraries have closed since 2010 (CIPFA 2019) while 14 pubs (in Great Britain) (CAMRA 2019) and a playground (in England) are being shut every week (API 2018). Some of these trends are being driven by changing consumer preferences (eg the rise of internet shopping or a shift in preference from pubs to restaurants) but they are also the result of swingeing cuts to local authorities and stagnant wages which have reduced consumption. These trends are likely to be exacerbated by the Covid-19 crisis.

FIGURE 2.8: TOWN CENTRE SHARE OF RETAIL EXPENDITURE, UK

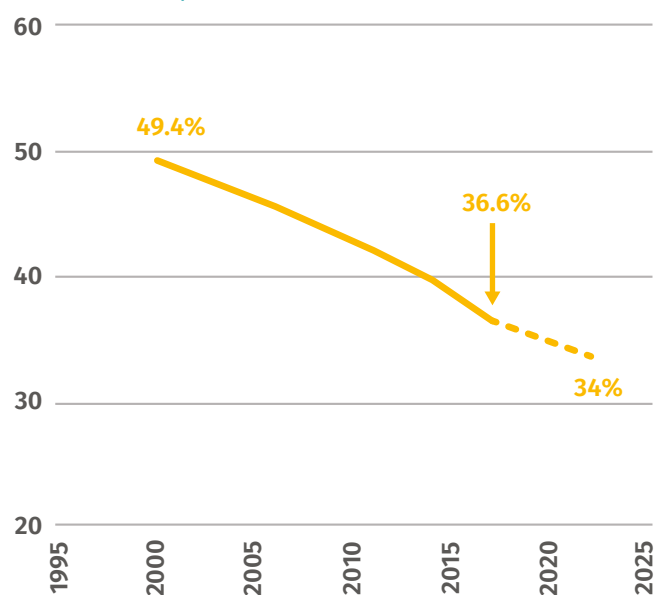
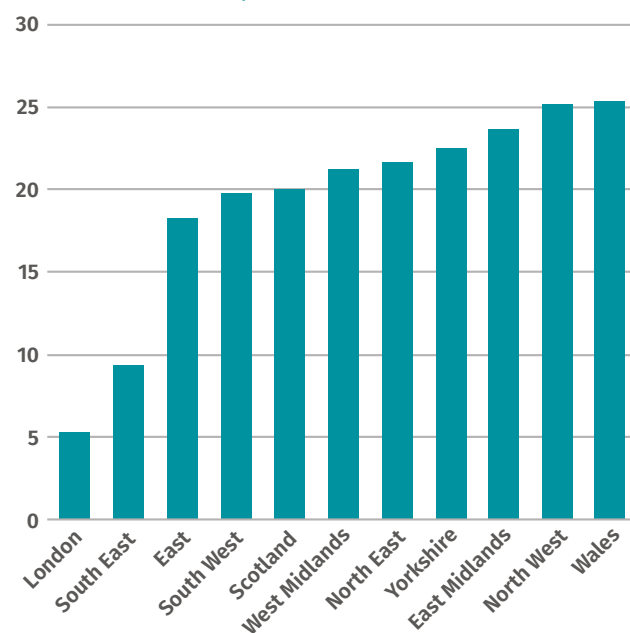


FIGURE 2.9: REGIONAL DIFFERENCES IN HIGH STREET CLOSURES, GREAT BRITAIN



Source: Millington et al (2018)

Trust in the UK has remained resilient.

The proportion of people across the UK who would say that most people can be trusted has increased from around 29 per cent in 2004 to 36 per cent in 2016 (ONS 2020b). Likewise, there has been growth in the proportion of people who would say that most people in their neighbourhood can be trusted, with up to two-thirds of people agreeing (ibid). By contrast, trust in government has declined over the period from around a third of people to around a fifth (though it oscillates significantly) (ibid). However, despite these metrics broadly showing trust to be resilient (if not increasing) in the UK, it is worth noting that it is low compared to many other countries. For example, while around a third of people in the UK believe that most people can be trusted, this compares to around three-fifths in countries such as Sweden and China (Ortiz-Ospina and Roser 2020).

These trends are concerning as social capital has significant economic, social and political value.

Together these trends provide an assessment of social capital in the UK. This can be defined as “networks together with shared norms, values and understandings that facilitate co-operation within or among groups” (Scrivens and Smith 2013). Despite reasonably positive trends in trust (the outcome of higher social capital) our findings are concerning. The evidence is clear that higher levels of social capital increase economic growth (likely to be a result of lower transaction costs), complement or reduce pressures on public services (through higher levels of familial or neighbourly care) and increase political participation and democratic accountability (Patel 2016).

2.4 THE SKILLS DEFICIT

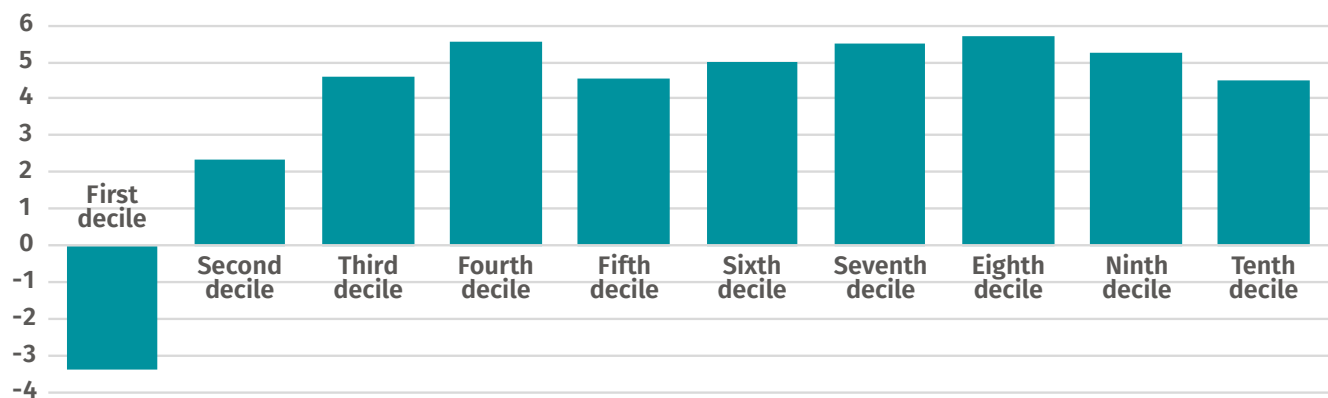
Our economy is undergoing a structural transformation that is reshaping the labour market.

Over the last few decades there has been a significant decrease in the number of jobs in the manufacturing sector and an increase in the number of service sector jobs. This is set to continue in the 2020s with growth in management and professional occupations, as well as industries such as caring, leisure and retail, but declines in administrative staff, skilled trades and process, plant and machinery operatives (Dromey and McNeil 2017). This is being driven by globalisation, meaning the integration of domestic markets in goods, services, labour and capital in the global economy, and, automation, meaning the substitution of labour by capital, reducing or eliminating the need for people to perform specific tasks in the production process.

The result is a significant polarisation of the labour market, with many low-skilled workers losing out.

Over recent decades this transformation has resulted in a ‘hollowing out of the middle’ of the labour market, with growth in ‘high-skilled’, high-pay jobs and in ‘low-skilled’, low-pay jobs, but a decline in semi-skilled, middle-income roles (Salvatori 2018). This is a problem for a number of reasons. Firstly, whilst pay for ‘higher skilled’ roles have increased, pay for those in ‘low-skilled’ work has stagnated (see figure 2.10). Secondly, the decline of semi-skilled roles reduces the opportunity for progression for those in low-skilled employment (and therefore social mobility). These trends mean that the ‘returns to education/skills’ have increased.⁴

FIGURE 2.10: MEDIAN INCOME CHANGE (BEFORE HOUSING COSTS), PERCENTAGE CHANGE 2010/11–2018-19, UK



Source: DWP (2020)

The UK suffers from poor progression out of low-paid work as well as high levels of in-work poverty.

Of those who were low paid in 2002 in the UK, three in four (73 per cent) had not managed to escape low pay a decade later. Those with no qualifications were significantly more likely to be stuck in low pay throughout the period (Hurrell 2013). One of the core purposes of the adult skills system should be to support adults who are in low-skilled or low-paid work to progress in the labour market. Yet in recent years, entitlements to funded training for adults who are in work have been reduced. In England and Wales those in employment and aged 24 and over are entitled only to co-funding for level 2 qualifications, and loan-funding for level 3 qualifications (Dromey et al 2017). Scotland continues to have lower rates of in-work progression and lower rates of productivity than the UK as a whole, and pay rates, although increasing, have reduced in real terms and are still behind rates in the UK overall (Thomas and Gunson 2017).

⁴ Though this is a reflection of power in the economy as much as productivity.

Poor use of employee’s skills contributes to low and stagnant productivity.

Since 2008, productivity in the UK has flatlined and is now 20 per cent below the level it would have been had it continued along its pre-crisis trend (see figure 2.11). Furthermore, it has exacerbated a pre-existing weakness in performance (figure 2.12). The causes of this are many and complex, but among them is poor skills-utilisation. The UK has the highest levels of self-perceived over-qualification in Europe. But, also large skills gaps: one-in-five UK employers have vacancies, of which around a quarter are the result of skills shortages (DFE 2018). Employers listed complex analytical skills, digital skills, self-management and leadership skills as the most important to address these gaps (ibid). Encouraging employers to invest in and make use of their employees’ skills and support individuals to progress is vital if we are to boost productivity and address the scourge of low pay.

FIGURE 2.11: UK PRODUCTIVITY AND REAL WAGES SINCE 1990

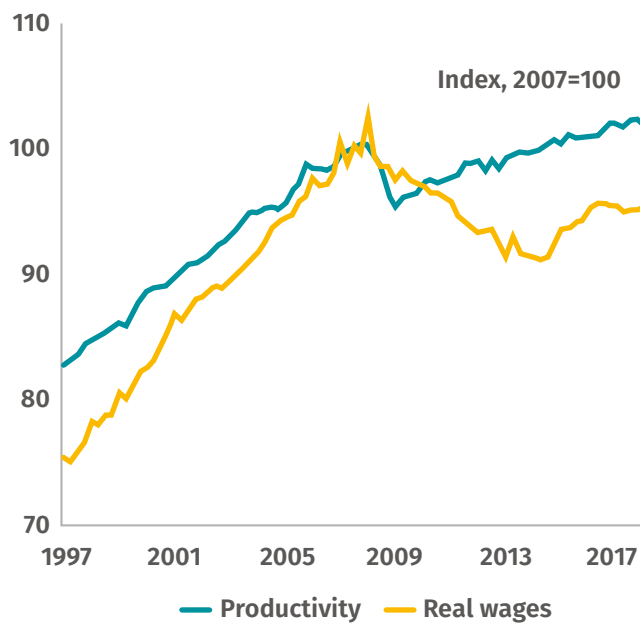
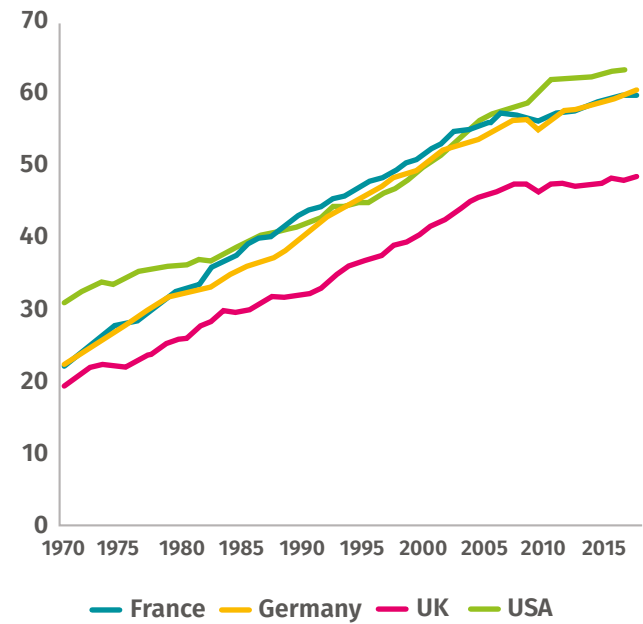


FIGURE 2.12: PRODUCTIVITY IN THE UK, USA, GERMANY AND FRANCE



Source: Haldane (2018)

This highlights the need for investment and reform in our education and skills system in the UK.

The UK performs above the OECD average for schooling in science, maths and reading⁵ (OECD 2018). Likewise, we have some of the best universities in the world. However, the UK underinvests in education compared to many other countries (Quilter-Pinner and Hochlaf 2019). This is particularly true for vocational education, where the UK is weak, and further education, which has suffered significant cuts in recent years. This will be particularly important in the decades to come as the scale and nature of skills required grows. In future there will be demand for inter-personal skills, such as collaboration and coordination; higher-order cognitive skills, including fluency of ideas and originality; and systems skills, for example judgement and decision making (Bakhshi et al 2017).

⁵ Though is consistently outperformed by China, Singapore, Hong Kong, Japan, Finland, Korea and Canada.

2.5 THE SECURITY DEFICIT

Working-age and child poverty has risen in recent years.

Whilst overall relative poverty has remained stable over recent years (House of Commons 2019) (and there have been big declines in pensioner poverty⁶) there have been significant increases in working-age and child poverty (see figure 2.13). These trends are similar across the nations of the UK (though Scotland generally outperforms England whilst Wales exhibits higher levels) (JRF 2019). A majority of people in poverty are now in a family with at least one person in work. This has been driven by a range of factors including stagnant incomes and rising costs, in particular in relation to housing. However, it is also the result of deliberate policy choices with the government protecting pensioner benefits through the triple-lock⁷ while making significant cuts to working-age benefits. This can be seen by comparing the generosity of benefits against the Joseph Rowntree Foundation's (JRF) minimum income standard (MIC) which shows a widening gap for working-age groups (Davis et al 2018) (see figure 2.14). By comparison the MIC is largely met by pensioner benefits in the UK. These trends are likely to get worse as a result of Covid-19.

FIGURE 2.13: PROPORTION OF PEOPLE IN RELATIVE POVERTY (AFTER HOUSING COSTS) BY AGE BAND, 1961–2017, UK

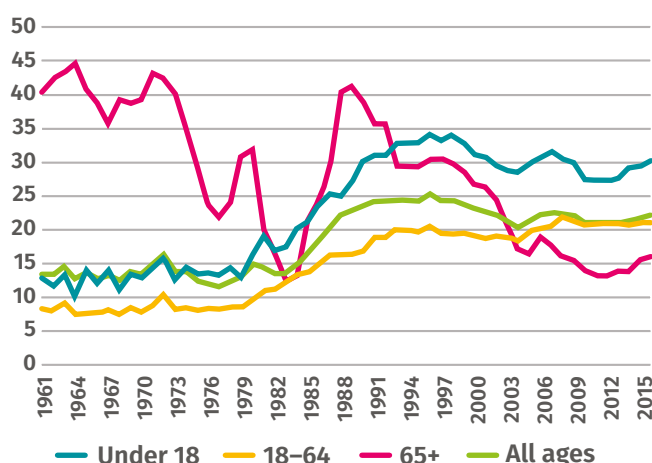
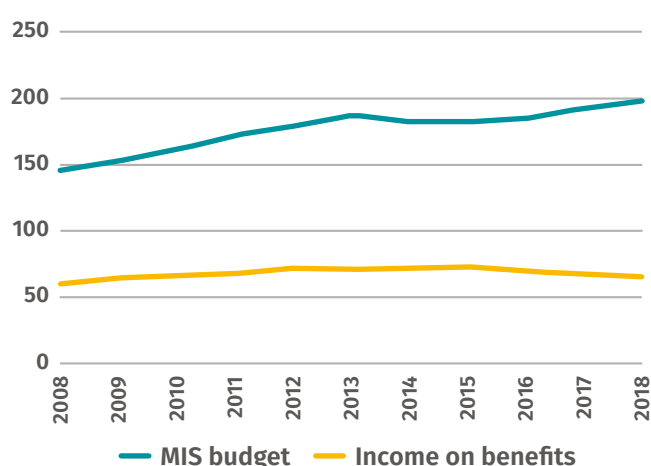


FIGURE 2.14: DISPOSABLE INCOME FOR A SINGLE WORKING-AGE ADULT ON OUT OF WORK BENEFITS COMPARED TO MINIMUM INCOME STANDARD



Source: Rahman (2019) and Davis et al (2018)

A significant group of the labour market are facing greater economic insecurity.

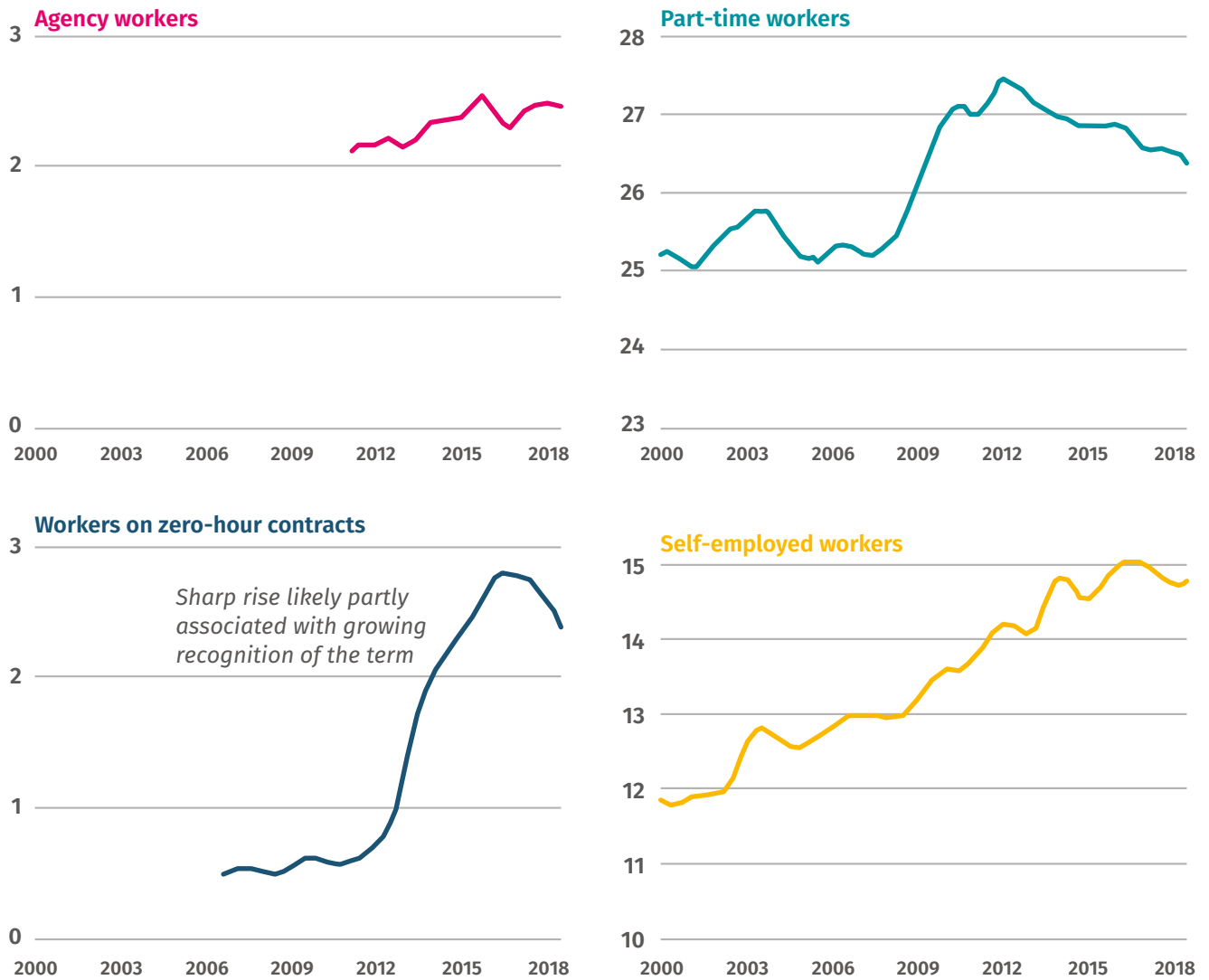
Many people face significant volatility in their income. Between 23 per cent and 28 per cent of employees experience changes in real pay from one year to the next that are greater than 20 per cent of their income (Tomlinson 2018). These fluctuations are larger and more likely to be negative for those on lower incomes. Most studies find that income volatility in the UK appears to have reduced over recent decades. But there is growing evidence that for some groups - particularly those in atypical employment⁸ - this is not the case. The number of people in this position has grown significantly in recent years: over two-thirds of employment growth since the recession (1.9 million out of 2.7 million) has been in atypical jobs (Clarke and Cominetti 2019) (see figure 2.15). This group of people have limited access to basic rights such as maternity and paternity pay, sick pay, annual leave, to request flexible working, redundancy pay and pension contributions (TUC 2016).

⁶ Though there are worrying signs this may have started to increase again.

⁷ Introduced in 2011 by the Coalition government, the triple lock guarantees that the basic state pension will rise by a minimum of either 2.5 per cent, the rate of inflation or average earnings growth, whichever is largest.

⁸ The self-employed, those working part time, those on a temporary contract, agency workers, and those on a zero-hours contract (ZHC).

FIGURE 2.15: SHARE OF THOSE IN UNEMPLOYMENT IN VARIOUS FORMS OF ATYPICAL WORK OVER TIME, UK



Source: D'arcy and Rahman (2019)

With incomes failing to keep up with costs, individuals are borrowing to pay for necessities, relying on informal support or simply going without.

Personal debt has grown to record levels as people have looked to compensate for low and insecure incomes by borrowing more. UK homes now owe an average of £14,540 to credit card firms, banks and other lenders (excluding mortgages) (TUC 2020) - around 27 per cent of the average household income (ibid). This is unsurprising: around a third of people have little or no savings (Balaram et al 2018). Others have had to seek increasing support from their family and friends. For example, there are a growing number of adult children are living with parents and there has been a rapid rise in people reliant on informal care. Others now rely on the voluntary sector: foodbank use has gone from virtually nothing pre-austerity to millions of users every year (Trussell Trust 2019). Meanwhile, many simply go without: for example, homelessness in the UK has increased rapidly over recent years.

DEEP DIVE: A NEW POLITICAL COALITION FOR THE CONSERVATIVES IN ENGLAND AND WALES

“ To all those who voted for us ... for the first time. You may only have lent us your vote; you may not see yourself as a natural Tory ... Your hand may quivered over the ballot paper before you put your cross in the Conservative box ... I am humbled that you have put your trust in me ... we will never take your support for granted.

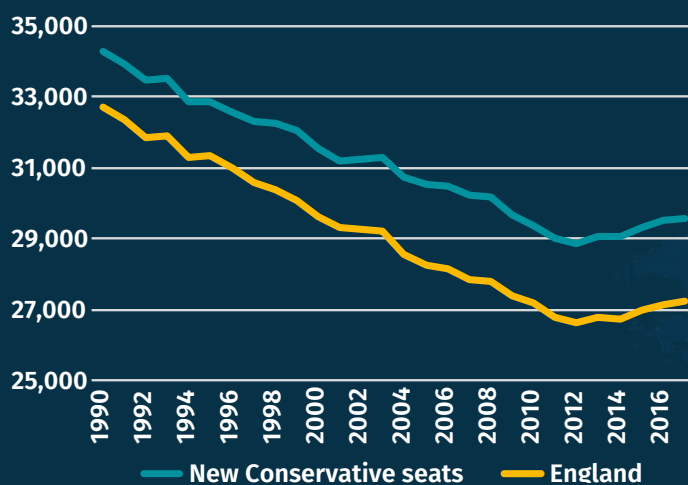
Boris Johnson, prime minister



The Conservative government have made new formerly ‘red wall’ seats a political priority following the 2019 election.

Previously named ‘red wall’ constituencies as they historically supported the Labour party, these seats stretch across the north of England, the Midlands and Wales. In 2019 many of these constituencies ‘turned blue’ by switching to vote for the Conservative party for the first time (see electoral map). This enabled the Conservatives to win a big majority in the House of Commons. In response, Boris Johnson, the prime minister, has committed to a ‘levelling up’ agenda which aims to spread investment and opportunity more equally across the country. The evidence is clear that these new Conservative constituencies are lagging behind in terms of the social deficits we have set out though they are by no means the only areas that are underperforming (indeed Labour seats on average are further behind on most social metrics).

FIGURE 2.16: DALY'S PER 100,000 OF THE POPULATION, ENGLAND, 1990–2017



Source: IHME (2019)

New Conservative seats across the north of England, the Midlands and Wales have worse health outcomes than the country as a whole.

41 of the new Conservative constituencies won at the last election have lower than average life expectancy (Health Foundation 2019). Likewise, they have a healthy life expectancy of just 60.9 years on average compared to 65 years across England as a whole (ibid). The same inequality can be seen for disability adjusted life years (DALYS).^{9,10} Even more concerning, our analysis shows that the gap between new Conservative seats and the rest of the country has widened over recent years (see figure 2.16). As of 2017, for every 100,000 members of the population, over 2,300 more years were lost due to poor health in these areas compared to the rest of England (see figure 2.16). This is undoubtedly a social injustice but will also be limiting the economic potential of these areas.

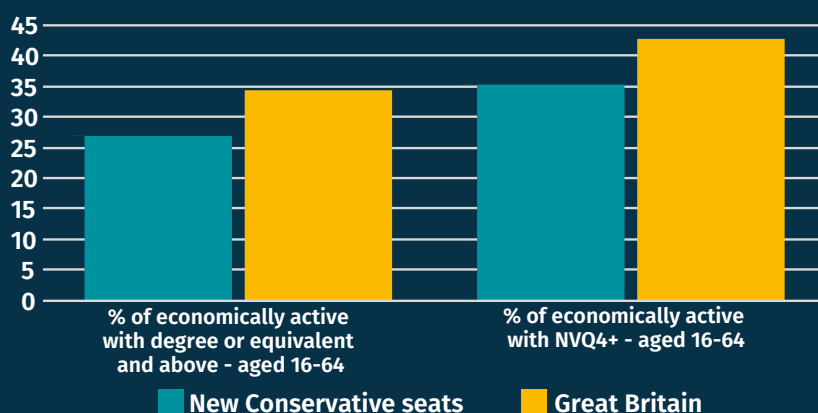
9 The years of life lost to premature death or illness.

10 Data excludes ‘blue wall’ seats in Wales due to the availability of data.

New Conservative seats across the north of England, the Midlands and Wales have lower skill levels and worse employment outcomes than the rest of the country.

Unemployment and inactivity rates are higher in new Conservative seats than across the rest of the country (McCurdy et al 2020). Similar trends are seen in the labour market with employment shares in the top six highest-paying sectors growing more slowly or shrinking faster in these areas than the national average (ibid). This is not entirely unsurprising given that skill levels are also lower. Of the new seats won by the Conservatives in 2019, an average of 26.8 per cent of the economically active population aged 16-64 held a qualification equivalent to a degree or higher, while 35.2 per cent held an NVQ4 or above. In contrast, the total population across Great Britain who held a degree or NVQ4 or higher stood at 34.4 per cent and 42.7 per cent respectively (see figure 2.17).

FIGURE 2.17: SHARE OF ECONOMICALLY ACTIVE POPULATION WITH QUALIFICATIONS, GREAT BRITAIN, 2019

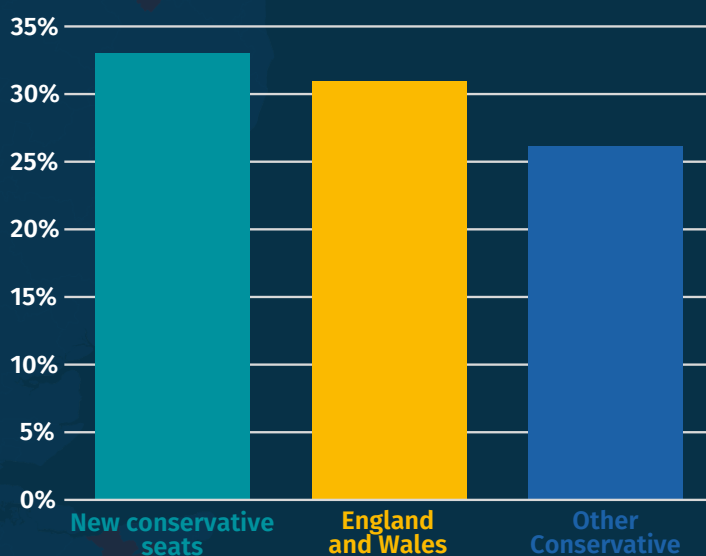


Source: Annual Population Survey (2019)

New Conservative seats across the north of England, the Midlands and Wales also have higher levels of poverty and deprivation.

Research shows that typical weekly pay in the 'blue wall', at £449, is £20 per week lower than the figure for Great Britain, and £44 per week lower than that for other Conservative areas (ibid). Furthermore, real pay has fallen further in these areas, at -2.1 per cent, than across Great Britain, at -1.5 per cent, over the past nine years. Poverty metrics are also higher in new Conservative seats than the rest of the country (see figure 2.18). In fact, all but eight of these seats in England are in the most deprived half of constituencies according to the Index of Multiple Deprivation (IMD) and almost seven in ten (31 of the 44) of these seats have become more deprived since 2010 (ibid).

FIGURE 2.18: CHILD POVERTY RATES (AFTER HOUSING COSTS) BY POLITICAL GEOGRAPHY, ENGLAND AND WALES



Source: McCurdy et al (2020)

3.

FIVE

SOCIAL

SHIFTS

FOR THE

DECADES OF

DISRUPTION

3.1 FROM A FROZEN TO A 'FUTURE-PROOF' WELFARE STATE

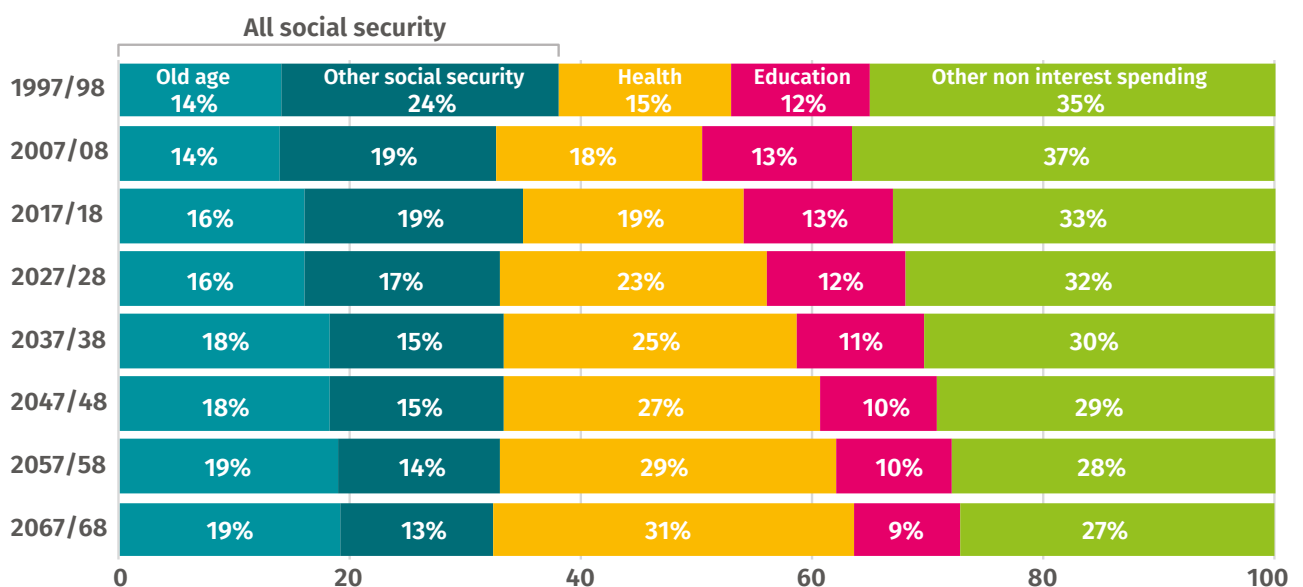
The welfare state must evolve in the face of the coming 'decades of disruption'.

Western welfare states were conceived in the post-war era of industrial societies, stable family structures, defined gender roles and limited globalisation. Since then the world has changed beyond recognition, with the rise of more socially liberal, individualised and globalised post-industrial societies. These transformations are set to continue - and will be joined by a plethora 'new social risks' - in what we call the 'decades of disruption' to come (Lawrence 2016). In the 2020s and beyond we will face existential risks, notably environmental breakdown and recurrent threats of infectious disease, growing demographic pressures, in particular our ageing population, as well as ongoing socio-economic trends, such as technological change. These changes will place pressures on us all, and will require a more ambitious and comprehensive welfare settlement to prevent ever growing levels of inequality, poverty and hardship.

Historically the welfare state has remained 'frozen' in the face of 'new social risks'.

Governments tends to suffer from 'path dependency'. This means that decisions taken previously, can limit, or are perceived to limit, the possibilities available today. This can be seen in terms of social spending where - in the absence of the political will to put up taxes - funding for 'old social risks' crowds out fiscal space to respond to newer ones (Pierson 2011). The result is the 'locking in' of historical patterns of spending. Another factor which perpetuates historical patterns of spending is voting patterns. Those over-50 are more likely to vote than those under 30, and therefore have far greater political power as a result. They are also more likely to rely on the NHS and to draw a pension, and it is therefore the case that while welfare spending overall has declined since 2010, these 'core services' represent a growing share of state spending. It has been harder to make the case for higher spending on provisions such as skills, childcare and working-age benefits despite persuasive evidence as to the value of investing in this areas (see figure 3.1) (Whittaker 2019b).

FIGURE 3.1: SHARE OF SPENDING ON VARIOUS GOVERNMENT FUNCTIONS, PAST, PRESENT AND FUTURE (FORECAST)



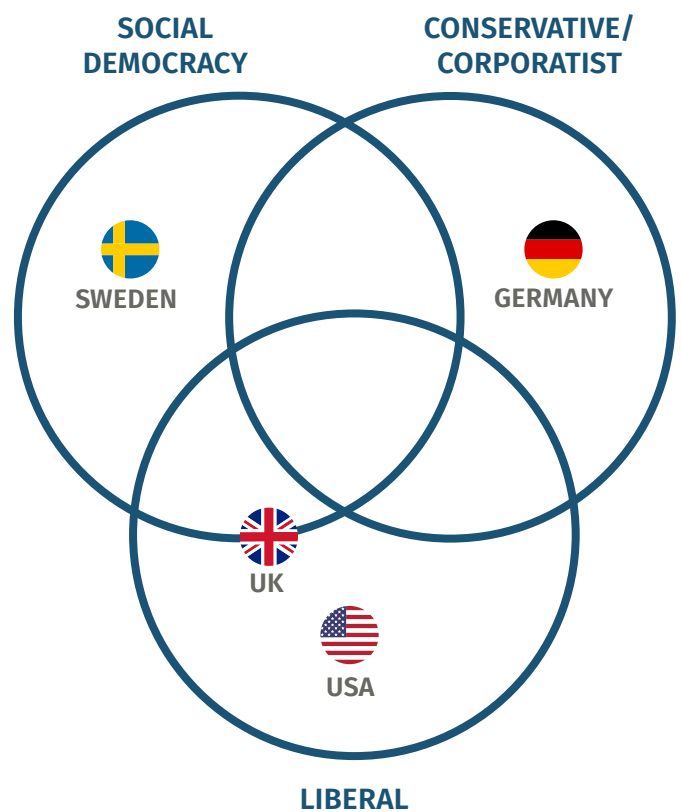
Source: Whittaker (2019b)

But there is now an urgent need for a paradigm shift in welfare policy to ‘future-proof’ the welfare state.

In the face of the ‘decades of disruption’ and the emergence of ‘new social risks’ the UK’s welfare state will come under increasing pressure. This will demand bold policy change or the acceptance of ever worsening social deficits in the UK. This has been vividly demonstrated in recent months with the Covid-19 pandemic which has required urgent and radical reform in our social safety net. New disruptions will also cost more to deal with through post-hoc, tailored schemes than through a stronger welfare settlement. For example, unless the opportunities offered by the transition to a low-carbon economy are realised through investing in retraining and new low-carbon jobs for those in energy intensive industries, the cost of job and skills loss could be significant, particularly in the north of England, where the majority of coal and gas power stations in England are situated.

FIGURE 3.2: THREE WORLDS OF WELFARE CAPITALISM

| | Liberal | Social democracy | Conservative |
|---------------------|------------|------------------|-----------------------|
| Role of family | Marginal | Marginal | Central |
| Role of market | Central | Marginal | Marginal |
| Role of state | Marginal | Central | Subsidiary |
| Mode of solidarity | Individual | Universal | Corporate partnership |
| Locus of solidarity | Market | State | Family |
| Characterisation | Residual | Universalist | Social insurance |



Source: Esping-Andersen (1990)

In future we cannot wait for these challenges to overwhelm us: instead we must adapt our systems of economic and social protection now.

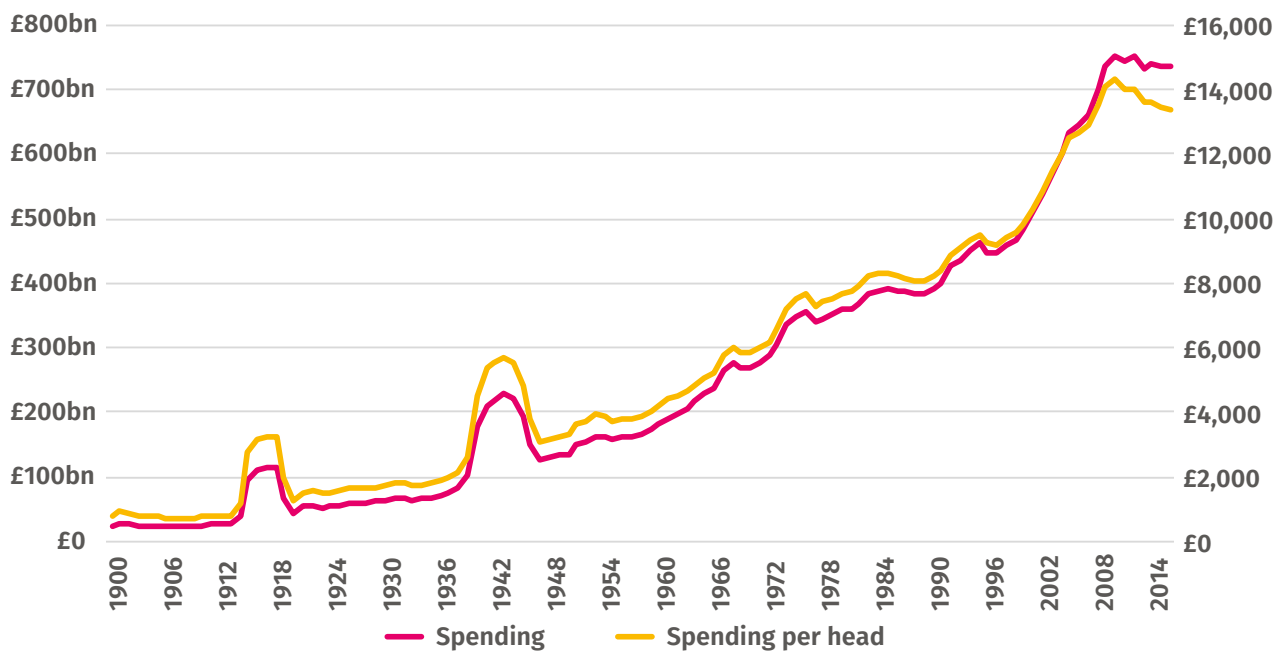
This requires us to fight off the logic of ‘path dependency’ and argue for a paradigm shift in social and economic policy. In terms of Gøsta Esping-Andersen’s ‘worlds of welfare capitalism’ framework (see figure 3.2), we argue that this means a move away from the UK’s ‘liberal regime’ towards a more ‘social democratic’ one, with more generous and universal support in order deliver a more equal society. This may seem impossible. But the welfare state in the UK has been through two paradigm shifts before - in the 1940s and in the 1980s and 90s. We must learn the lessons from these previous eras and undertake bold reform once again.

3.2 FROM CONSOLIDATION TO INVESTMENT

The last decade has seen significant cuts to public expenditure.

Since 2010 policy makers in the UK have embraced a programme of fiscal consolidation, defined as a concerted effort to reduce the budget deficit (the amount by which government spending exceeds its revenues). The result has been the longest pause in real terms spending growth on record (though recent budgets and the response to coronavirus will see spending grow again) (Quilter-Pinner and Hochlaf 2019) (see figure 3.3). With a growing population, this stagnation in spending has resulted in public spending per person declining (ibid). Furthermore, austerity has led to a rapid change in the shape of the state, with the NHS and pensions spending protected at the expense of other policy areas. The result has been swingeing cuts in key areas of the state including welfare (Gardiner 2019), local government (Hastings et al 2015) and skills (Dromey and McNeil 2017). Increasingly the welfare state has therefore become, in the words of sociologist Wolfgang Streeck, a 'consolidation state' (Streeck 2015).

FIGURE 3.3: REAL TERMS GOVERNMENT SPENDING, TOTAL AND PER HEAD



Source: Quilter-Pinner and Hochlaf (2019)

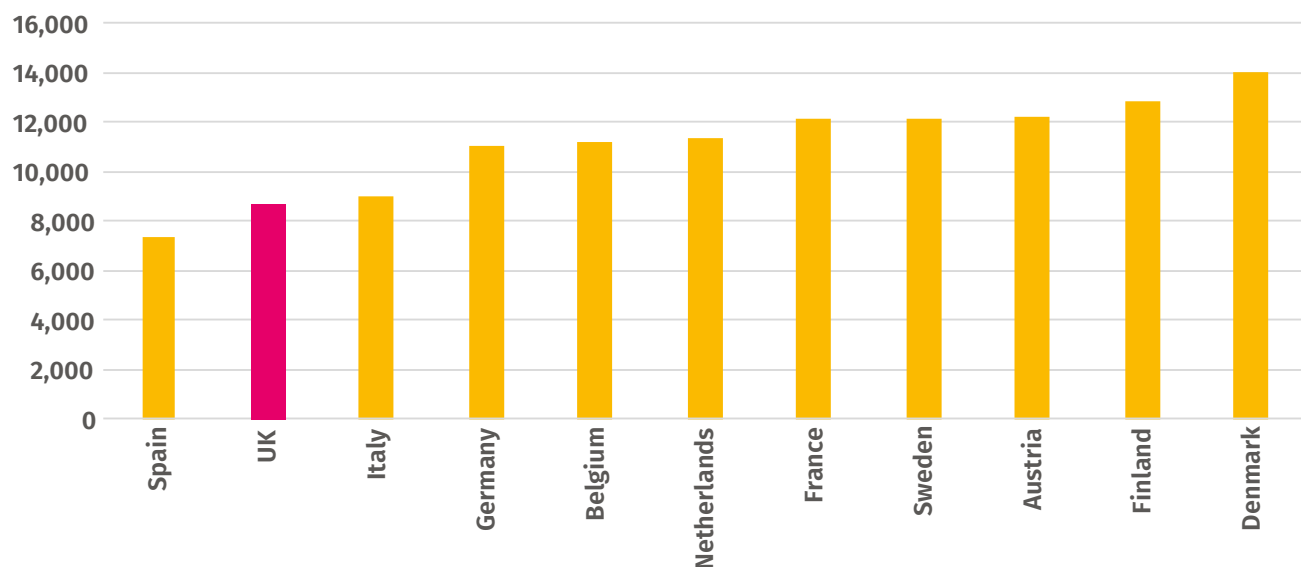
This consolidation has been justified on the basis that public expenditure is unproductive.

Proponents of a smaller state argue that government spending hampers economic growth. They argue this occurs through two main channels. Firstly, by reducing the incentive for people to work (by making unemployment less painful). And, secondly, by crowding out private sector spending through the higher taxation required to fund public services. As a result, they argue that, contrary to traditional Keynesian economic theory, cuts to public spending could lead to an increase in economic growth (Alesina et al 2018). Many proponents of a smaller role for the state also argue that government spending will also fail to deliver better social outcomes as a result of inefficiencies and distortions of the market (Buchanan and Tullock 1999).

But the evidence suggests the opposite: that social spending can promote economic growth as well as better social outcomes.

There is growing evidence social spending on education (Barro 2001), adult skills (Aznar et al 2015), health (Cylus et al 2018) and early years (Brewer et al 2016) is an investment in human capital which drives higher productivity and therefore higher economic growth (the latter also increases female labour market participation). Moreover, a recent IMF study suggests that investments in social security may be beneficial for growth (given growing evidence of the negative link between inequality and growth) (Ostry et al 2014). Furthermore, IPPR research also shows that the UK currently spends significantly less per head on social spending - meaning health, education and social security - than comparable European countries (see figure 3.4). This lack of social investment means that these countries tend to outperform the UK in terms of social outcomes - including poverty, inequality, health and education - with research suggesting this link is causal (Quilter-Pinner and Hochlaf 2019).

FIGURE 3.4: SOCIAL SPENDING PER HEAD IN THE UK AND COMPARATOR COUNTRIES, 2017 (2019 PRICES)



Source: Quilter-Pinner and Hochlaf (2019)

This justifies the move to a more expansive welfare settlement and progressive taxation.

On this basis we have argued that we need to shift from a 'consolidation state' to an 'investment state'. This would see levels of social investment converge with similar countries across Europe (see figure 3.4), meaning £100 billion more in spending by the end of the decade (ibid). We have argued that some of this could be funded out of borrowing, as contrary to popular opinion, the UK does have more 'fiscal space' to borrow (Ostry et al 2010). In fact it can do so at record low interest rates. But it will also require higher taxation. This is achievable: most European countries raise more in taxation without a noticeable impact on economic growth.

3.3 FROM ECONOMIC GROWTH TO A BROADER CONCEPTION OF WELLBEING

A narrow focus on economic indicators such as GDP perpetuates the myth that economic growth encompasses all other economic and social goals.

In recent decades, economic growth (measured primarily by GDP growth), has become the primary metric by which government has measured the success of its economic policy. It has also become a more general proxy for the welfare and wellbeing of the nation. Yet this has obscured the extent to which rising income may in some cases be negatively associated with social welfare; for example if the nature of work is contributing to an increase in mental ill-health, or if lower spending on benefits is pushing people further into poverty. As we have argued previously “GDP has a number of shortcomings if the goal is to understand societal welfare: it excludes unpaid work; does not take account of environmental resource use; ignores distributional concerns; and because it does not consider who is gaining from growth, is only weakly correlated with wellbeing” (Colebrook 2018).

BOX 3.1: WHAT SOCIAL OUTCOMES DO PEOPLE NEED FOR THE ‘GOOD LIFE’?

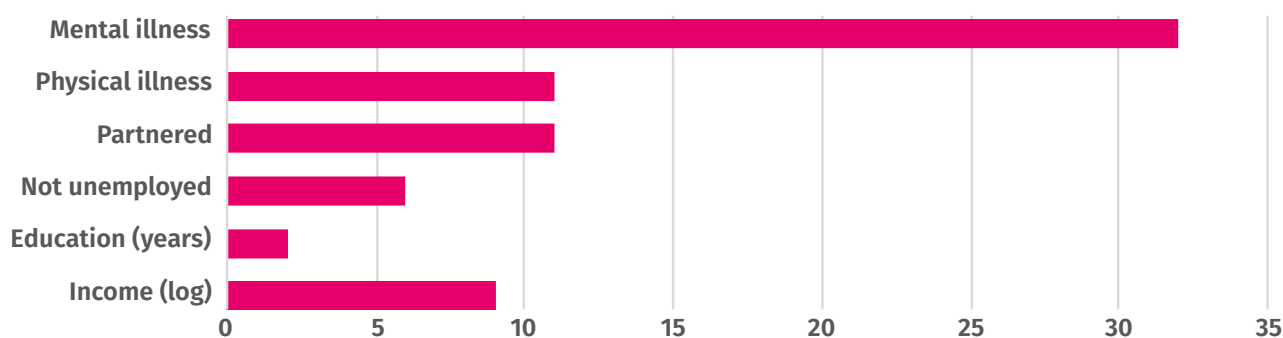
There has been much debate about the key elements of a ‘good life’. For the purposes of this programme we will build on the groundbreaking work of Amartya Sen and Martha Nussbaum who argue that humans need a number of fundamental *capabilities* in order to thrive. It is these capabilities that enable people to achieve human flourishing and achieve true ‘freedom’. While Sen has been reluctant to establish a definitive list of these capabilities, Nussbaum (2011) has argued in favour of ten core capabilities.

- › Being able to live to the end of a human life of normal length.
- › Being able to have good health, adequate nutrition, adequate shelter, opportunities for sexual satisfaction and choice in reproduction, and mobility.
- › Being able to avoid unnecessary and non-beneficial pain and to have pleasurable experiences.
- › Being able to use the senses, imagine, think, and reason; and to have the educational opportunities necessary to realize these capacities.
- › Being able to have attachments to things and persons outside ourselves.
- › Being able to form a conception of the good and to engage in critical reflection about the planning of one's own life.
- › Being able to live for and to others, to recognize and show concern for other human beings.
- › Being able to live with concern for and in relation to animals and the world of nature.
- › Being able to laugh, to play, to enjoy recreational activities.
- › Being able to live one's own life and no one else's; enjoying freedom of association and freedom from unwarranted search and seizure.

There is a growing movement calling for government to move beyond GDP and adopt a broader set out metrics for social and economic outcomes.

Some have argued in favour of a single alternative goal, for example, subjective wellbeing. Sometimes referred to as happiness or quality of life, wellbeing provides a way of measuring individual and societal progress based on peoples' own experience rather than against metrics established by a third party.¹¹ There is growing evidence about the determinants of wellbeing: studies find that beyond a certain level, income is less important than your health (both physical and mental) and your relationships (see figure 3.5) (Clark et al 2017). However, there are many critiques of this wellbeing approach (Colebrook 2018). IPPR has previously proposed instead that the UK should focus on wellbeing as part of a 'dashboard of metrics' (see box 3.2) to guide government policy and spending decisions. Similar approaches to this are being piloted in Scotland (Sturgeon 2020) and New Zealand (NZ Treasury 2019).

FIGURE 3.5: HOW ADULT LIFE SATISFACTION IS PREDICTED BY ADULT OUTCOMES (PARTIAL CORRELATION COEFFICIENTS)



Source: Clark et al (2017)

BOX 3.2: MEASURING WHAT MATTERS

IPPR has previously proposed a dashboard of five outcome indicators, to be updated annually, which would directly measure the outcomes we want our economy and government to deliver: broadly-shared prosperity, justice and sustainability.

These indicators are:

1. the distribution of the gains from growth
2. poverty among children and adults
3. the level of wellbeing, disaggregated by income
4. the gap between the median income of the poorest region of the UK and the richest
5. the gap between projected carbon emissions and the cost-effective path to decarbonisation.

Together, these indicators reveal how broadly the economy distributes its rewards, whether it is succeeding at reducing poverty, whether people feel satisfied with their lives, and our progress at moving towards an environmentally sustainable model of growth.

11 The ONS measures personal wellbeing by asking individuals four questions: Overall, how satisfied are you with your life nowadays? Overall, to what extent do you feel the things you do in your life are worthwhile? Overall, how happy did you feel yesterday? and Overall, how anxious did you feel yesterday?

3.4 FROM INDIVIDUAL TO COLLECTIVE SOLUTIONS

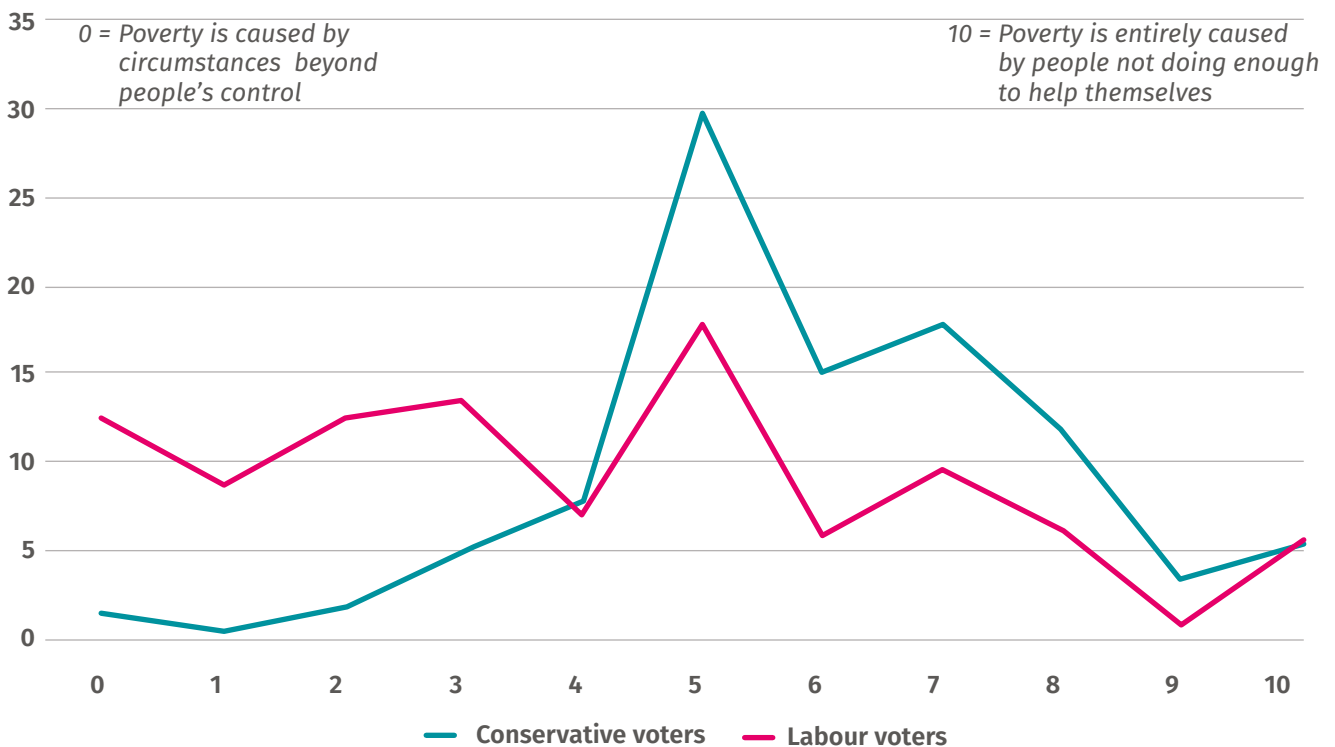
People in the UK have experienced a 'great risk shift' in recent decades.

The state and employers have increasingly offloaded the risks associated with ill health, unemployment, becoming a parent, having a disability, and old age, onto individuals. For example, employers increasingly avoid the responsibility of sick pay, contributing to pensions and parental leave by employing people on flexible contracts. Meanwhile, successive governments have cut state funding and access for collective welfare provision such as higher and further education, social care and social security. A recent study found that across most areas of welfare provision, public funding (and provision) fell with private (out of pocket payments) growing in response (Obolenskaya and Burchardt 2016). This shift is also likely to be a key driver of the growth of both informal provision (eg informal care) and unmet need.

This has been driven by the rise of 'personal responsibility' as the key moral framework for social policy.

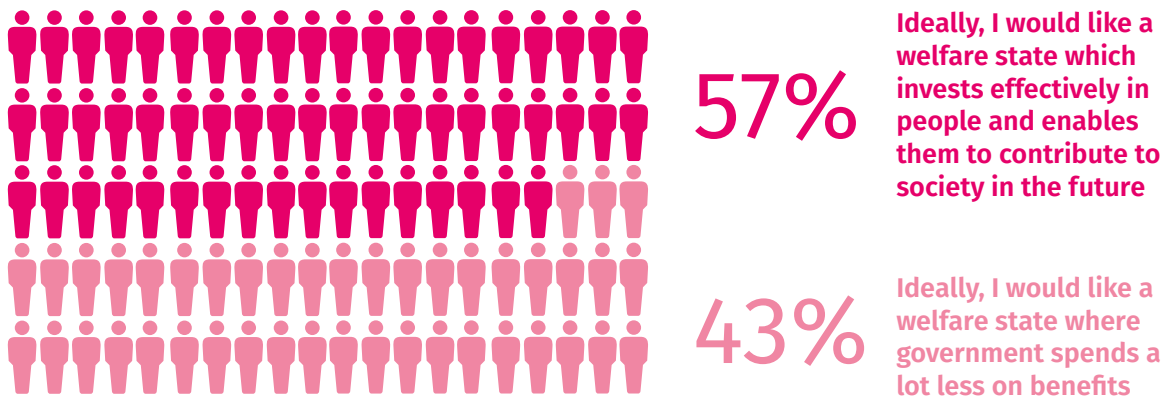
The 'great risk shift' (Hacker 2019) has been driven by a change in public understanding and belief about the nature of risks in the economy, with proponents of this narrative emphasising the importance of personal choices in shaping individuals' social outcomes. They tend to deny the shared, structural and arbitrary nature of the risks we all face. These beliefs are particularly strongly held by Conservative voters (see figure 3.6) but see lower levels of support across the political spectrum.

FIGURE 3.6: THE CAUSES OF POVERTY IN THE UK TODAY, BY VOTING INTENTION



Source: Shorthouse and Kirkby (2014)

FIGURE 3.7: PROPORTION OF CONSERVATIVE VOTERS WHO PRIORITISE STATE WELFARE BEING USED TO INVEST IN PEOPLE AHEAD OF EXPENDITURE CUTS



Source: Shorthouse and Kirkby (2014)

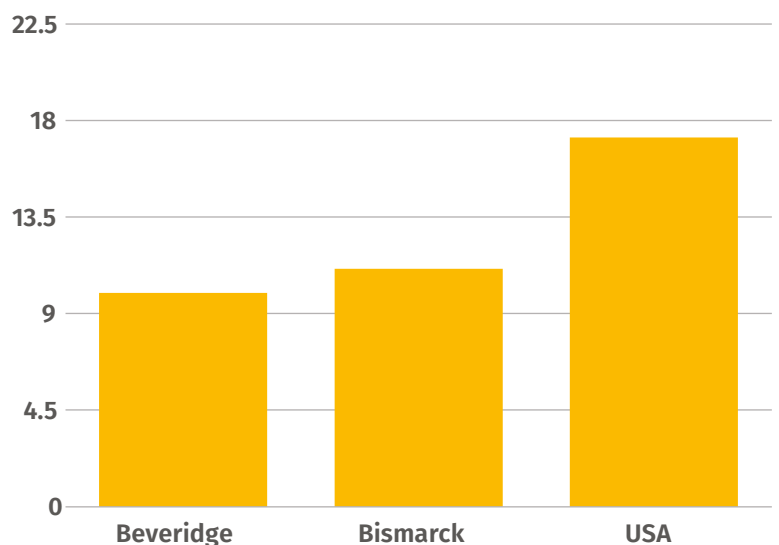
Collective risk pooling will increasingly be needed in a society with greater shared social risks.

We are intimately bound together as individuals by the structural forces that shape our lives. The recent coronavirus outbreak is a striking example of this: everyone is at risk (largely) regardless of the choices we make. But it is far from the only example. Global economic crises, structural shifts in the economy and environmental disasters - all of which are likely to shape the UK in the 2020s and beyond - highlight that we are bound together by forces often beyond our control. This does not deny a role for personal responsibility and choices. But it recognises the limitations of the personal responsibility framing. Furthermore, there is also a growing recognition, even among those on the right of politics, that collective social investment is needed to ensure people have the opportunity to make good choices (eg to reduce the structural barriers to opportunity) (see figure 3.7).

Collective risk pooling is also the most efficient way of managing many large-scale risks in a civilised society.

Some have argued that private markets for risk can be more effective. This is usually argued on the basis that markets create a downward pressure on price, drive up quality and increase responsiveness to the consumer. But the greater frequency of social risks expected during the 'disruption decades' suggests these assumptions need to be re-evaluated. This is because private markets are more effective where risk is limited. Some evidence suggests that social risk pooling is more efficient than private insurance for tackling large-scale needs. Take the NHS as an example: we spend less than comparable private health insurance systems abroad, without correspondingly worse outcomes (see figure 3.8) (Darzi et al 2018).

FIGURE 3.8: BEVERIDGE SYSTEMS ARE CONSISTENTLY CHEAPER THAN THEIR COMPETITORS (HEALTH SPEND PERCENTAGE OF GDP, 2016)



Source: Millington et al (2018)

DEEP DIVE: COVID-19 AND SOCIAL SECURITY – IMPACT AND IMPLICATIONS

Covid-19 has precipitated a significant economic shock.

This is partly the result of the health impacts of the virus (eg increased rates of sickness) but more significantly the social distancing measures introduced to prevent the spread of Covid-19. These measures have essentially created a ‘sudden stop’ in economic activity as all non-essential travel and economic activity has been prohibited. This is both a supply-side (eg reductions in production and trade) and a demand-side shock (eg reductions in demand and consumption). Without government action this would have resulted in huge numbers of businesses failing, mass unemployment and severe economic hardship.

The government has put in place emergency measures to manage the crisis.

The first aim of the government policy has been to *prevent* long-term economic damage by supporting employers to remain solvent – and retain their staff – during the crisis. Measures include £330 billion of government-backed loans or grants for businesses; the coronavirus job retention scheme allowing firms to ‘furlough’ their workers during the crisis, and a package of emergency support for the self-employed. The second aim of recent government policy has been to *respond* to unemployment by strengthening the social safety net. Measures have included an increase in the universal credit baseline payment, the standard allowance¹² by £1,040 per year, an increase local housing allowance (LHA)¹³ rates to cover at least 30 per cent of market rents in each area and scrapping the minimum income floor for the self-employed.¹⁴

These changes are welcome but insufficient to protect economic hardship.

The evidence suggests that (at the time of writing) 5.6 million people are at risk of ‘slipping through the net’ created by recent government interventions (Krebel et al 2020). These include people on fixed term and zero-hours contracts and those who are newly self-employed,¹⁵ only part self-employed or work as an incorporated micro-company. Likewise, the increase to the universal credit standard allowance does not come close to fully reversing the cuts to universal credit since 2010. Furthermore, the value of the UK’s out of work benefit is significantly lower than for other OECD countries (relative to previous earnings). For single people without children can expect only 34 per cent of their income to be replaced should they become unemployed, the lowest level across the OECD (see figure 3.10). This is particularly significant given that there has been a huge increase in universal credit claimants since the onset of the crisis, with some economists predicting that unemployment could end up as high as 21 per cent (Blanchflower and Bell 2020).

12 The minimum monthly payment for universal credit claimants.

13 LHA guides the amount of money claimants can claim towards their rental costs if they are in the private rented sector.

14 Universal credit includes a ‘minimum income floor’ (MIF) if someone is gainfully self-employed and their business has been running for more than 12 months. The MIF is an assumed level of earnings based on what we would expect an employed person to receive in similar circumstances and is used to determine the persons entitlement.

15 Who haven’t submitted a self-assessment tax return in 2018 /19 tax year.

FIGURE 3.9: NEW CLAIMS TO UNIVERSAL CREDIT POST-COVID-19 COMPARED TO NEW CLAIMS TO JOBSEEKER'S ALLOWANCE POST-2007/08 CRASH

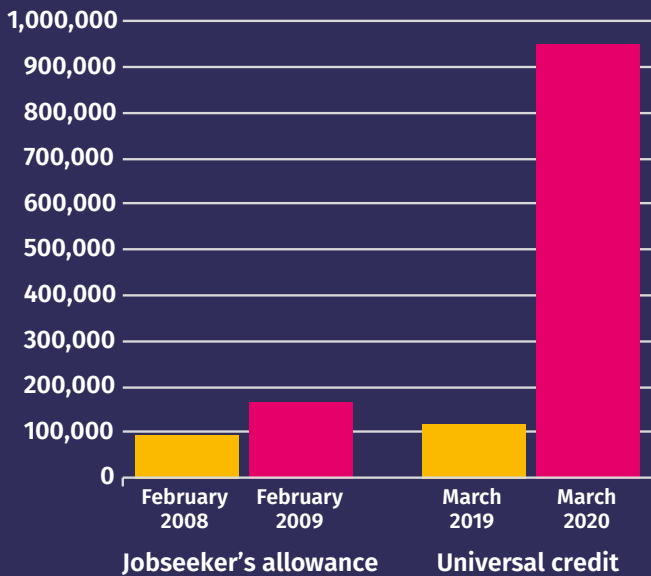
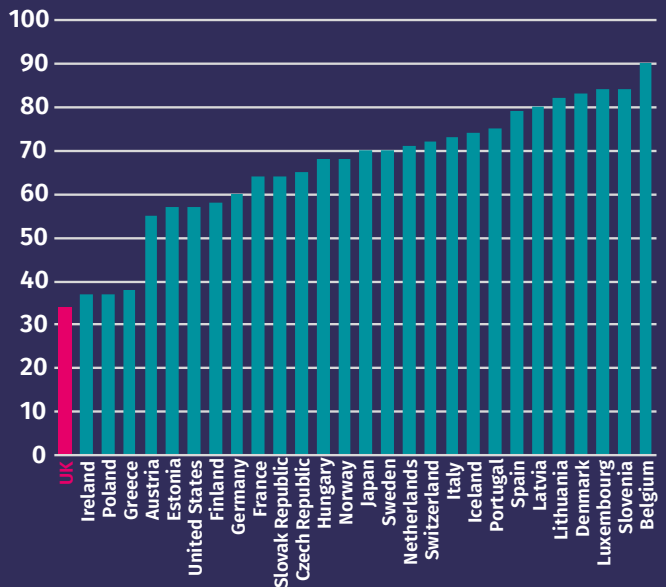


FIGURE 3.10: BENEFITS IN UNEMPLOYMENT AS A PERCENTAGE OF PREVIOUS INCOME, SINGLE ADULT WITH NO CHILDREN

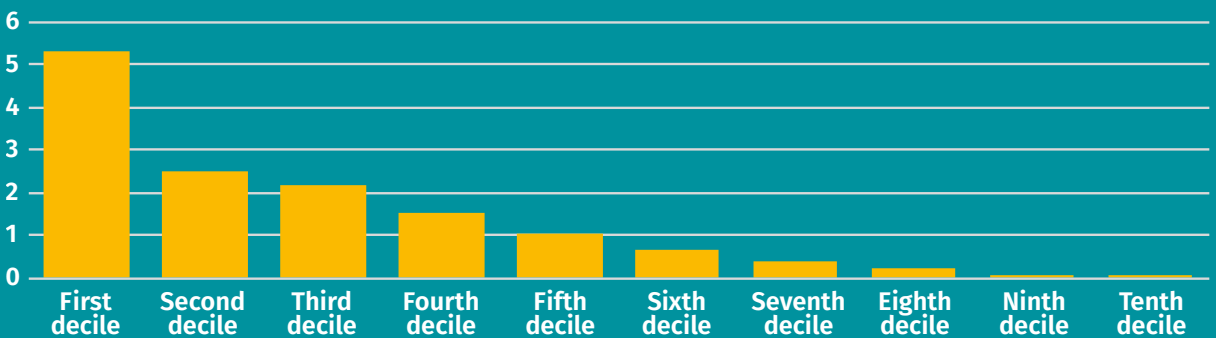


Source: Brewer and Handscomb (2020) and OECD (2020)

BOX 3.3: REFORMS TO UNIVERSAL CREDIT – WHY DID IT TAKE A CRISIS?

The government's recent decision to increase the base line payment of universal credit – the standard allowance - raises the question of why previous lower payment levels were acceptable. Our analysis shows that had the government introduced these measures in 2015, households in the poorest decile would have higher incomes today (up by 5.3 per cent). Across the bottom half of the income distribution, these changes would have resulted in a boost to income. Perhaps most importantly, there would be 500,000 fewer people in poverty than there are today. This would have reduced the impact of the economic insecurity precipitated by Covid-19 crisis today for many people in the UK.

FIGURE 3.11: DISTRIBUTIONAL IMPACT OF IMPLEMENTING RECENT BENEFIT INCREASES IN 2015 WITHOUT THE BENEFIT FREEZE IN 2019/20, MEAN PERCENTAGE CHANGE IN WEEKLY INCOME



Source: IPPR tax benefit model

3.5 FROM TRANSACTIONS TO RELATIONSHIPS

Historically government has sought to run public services and welfare through bureaucracies and markets.

Bureaucracies can be defined as rule-bound hierarchical governance with a strict separation between policymaking, which is done at the centre, and implementation, which is carried out by staff at the local level. Bureaucratic models have been utilised since the creation of centralised public services in the 1940s but have been refined over time with the 'new public management' (NPM) approach introducing rigorous regimes of performance management, including targets, data collection to create feedback loops and regulation.

Markets have been introduced into public service delivery in order to drive greater efficiency and effectiveness. This has occurred in two ways. First, by allowing service users to choose between providers, but on the basis of quality (as proxied by publicly available data, regulator reports or league tables) rather than price, in an attempt to replicate the conditions that exist in markets for private goods. And, second, in the case of 'natural monopolies', by contracting out entire services to an external provider.

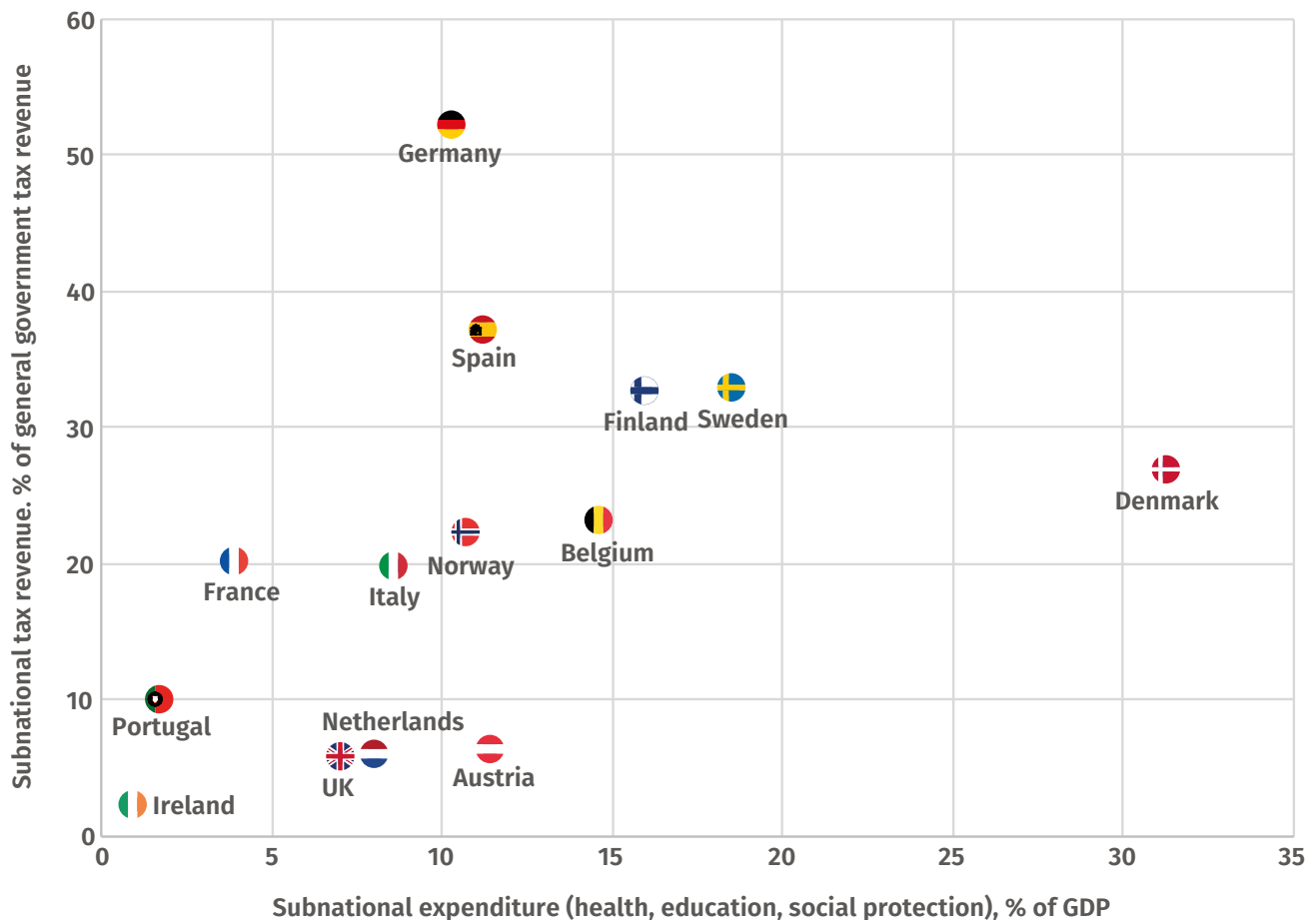
These approaches have failed to transform social outcomes in recent decades. Instead we must put people and relationships at the heart of the welfare state.

Both approaches have been reasonably effective at achieving this for 'tame' social problems (eg reducing A&E waiting times, collecting bins etc) but they are less effective at tackling complex problems which have multiple, non-linear and interconnected causes that feed off one another in unpredictable ways. For example, top-down targets and market incentives in public services struggle to drive significant improvements in antisocial behaviour, care for chronic ill-health and long-term unemployment. Indeed, they can create perverse incentives and result in additional costs (Paton 2014). A new approach to public services is needed to drive improvements in the social deficits identified in this paper. Where bureaucracies are paternal and hierarchical, and markets are consumerist and transactional, the investment state must be profoundly empowering, relational and democratic. As Hilary Cottam has argued in *Radical Help* it is only when people have agency and feel supported by strong human relationships that change happens (Cottam 2018).

This requires a programme of radical decentralisation.

The UK - and particularly England - has one of the most centralised systems of government in the world, with other countries passing many more down powers to local areas (Raikes 2020). These responsibilities are often matched by spending and revenue raising powers (see figure 3.12). Studies suggest that greater decentralisation could drive higher (Baskaran et al 2016, Baskaran and Feld 2009) and more equal growth (Goerl and Seiferling 2014, Huhne 2007, Jeffrey 2011, Blöchliger et al 2013), more efficient public services (Sow and Razafimahefa 2015) and better democratic outcomes (Polverari 2015) (see box 3.4 for more details). In future the default must be for local areas to take on greater powers and funding over the policy and services that shape their lives. But it is crucial that power is not simply passed down from central government bureaucrats to those at the local level. Instead, local government must radically transform how services are delivered and pass real power down to citizens and communities themselves. Experiments with participatory budgeting are demonstrating the value of this approach. But these experiments often focus on discretionary spending. This has led to calls in favour of community commissioning for core public service budgets (Lent and Studdert 2019).

FIGURE 3.12: COMPARATIVE DECENTRALISATION IN REVENUE RAISING AND SOCIAL SPENDING, COMPARABLE EUROPEAN COUNTRIES, 2016



Source: OECD (2019)

BOX 3.4: WHY DOES DECENTRALISATION DRIVE BETTER OUTCOMES?

The causality associated with decentralisation and these economic and social outcomes is difficult to determine but the literature would suggest three primary channels. First, decentralisation can lead to better decision making due to superior access to information (Sow and Razafimahefa 2015). Second, decentralisation can lead to greater accountability to the public which can drive better policy making (ibid). And, finally, decentralisation enables integration and coordination of different areas of government, which is not possible at the national level (Raikes 2020).

CONCLUSION AND NEXT STEPS

We have argued that a wide range of paradigm shifts are needed if the welfare state must evolve in the face of the coming 'decades of disruption'. In summary five shifts are needed.

FROM A FROZEN TO A 'FUTURE-PROOF' WELFARE STATE

A move away from the UK's 'liberal welfare regime' towards one which collectivises risk and shares opportunity, with greater universal provision.

FROM CONSOLIDATION TO INVESTMENT

A rejection of austerity and a shift towards investing for growth and progressive taxation, strengthening social security and public services to address 'new social risks'.

FROM ECONOMIC GROWTH TO A BROADER CONCEPTION OF WELLBEING

Prioritizing not just economic growth but also a wider set of social goals including social connection, health and placing a higher value on the role care (both paid and unpaid) plays in our society.

FROM INDIVIDUAL TO COLLECTIVE SOLUTIONS

A recognition of the collective nature of social risks and the need for compulsory social insurance (risk pooling) to manage them.

FROM TRANSACTIONS TO RELATIONSHIPS

Moving beyond markets and bureaucracies as a way of delivering public services towards one where empowered public servants and citizens work together to solve local problems.

Escaping from path dependence will only happen if there is a strong social and political consensus for change, with the support of coalitions formed across economic, demographic and political faultlines.

Over the next year the programme will therefore listen to the thoughts and views of a wide range of individuals and groups across the country, seeking to understand the welfare state as experienced by the people who use it and work in it all over the country. We will draw on the experiences of a diverse charity network and our findings will be shaped by an advisory group whose members have been drawn from across our society.

Topics examined will include the future of income security, youth employment, personal debt, community resilience and re-evaluating the status and provision of care - both paid and unpaid. We will also take a longer lens on spending priorities for the welfare state, asking how to maintain spending on 'traditional' welfare priorities while being able to meet the demands presented by 'new social risks'.



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