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Speech at CPAG's AGM and debate 'Ending child poverty in a generation: what welfare state do we need?' on 1 December 2008

The last few months have been the most politically volatile I can remember. Oil hit nearly \$150 a barrel before falling below \$50 this month. Six months ago, inflation was soaring – now it's heading down, and fast. Interest rates have fallen to the lowest level since the 1950s.

Globalisation has left the seminar room and entered our living rooms. Problems in the American mortgage market bring down British banks.

People are worried about their jobs and supporting their families over coming months.

One response to this situation is to be pessimistic and retrench. Protect ourselves against change, and narrow our policy ambitions.

Tonight, I want to argue we should do the opposite. We should be more ambitious about creating a fairer society. But we should be clear that will only be achieved by making the welfare state both more generous and more demanding.

Times of change are also opportunities for a new approach. In 1916, after the Easter uprising, Yeats wrote that everything had changed, changed utterly.

Not everything will be different. We will remain a market economy. We should remain an open economy. We will return to being a growing economy.

But I believe that politics in the next few years can change.

The credit crunch may rebalance Britain's political scales. I have lived all my political life in the shadow of an event I barely remember: the Winter of Discontent.

It discredited social democracy. There had been too much union power, a mistaken belief that the state always knew better than the market, a misguided hope that we could borrow without paying back.

But the failure of those ideas discredited their application. It became hard to argue for state intervention, trade union rights, fiscal policy, even when they were right.

It also resigned many voters to inequality. A Labour government had tried to build a fairer society. It had ended in failure. Many concluded that it wasn't just the methods that had been wrong, but the goal too that was unachievable.

The credit crunch may rebalance the scales. It has exposed the mistake of those who believed markets always know best, that they didn't need regulation or that a super-rich minority could live in Britain without being responsible to our society.

But we need to be clear about what the lesson is. Not everything has been changed utterly. We shouldn't go back a generation. Just because a new set of mistakes was made doesn't right the errors of the 1970s.

Instead, I think the events of the last few months underline the basic idea behind New Labour. That we should be ideological about our goals – a fair society, based on social justice and individual aspiration. But that we should be ideologically neutral about means – indeed that we should use whatever methods are appropriate to achieve our goals, because it's goals and results that matter in politics.

Indeed, I think we should be bolder about our goals. That's because of the other major event of this political year – the Democrats' election. I think that will put a turbo-booster under progressive politics – just as Bill Clinton's election led to a revival of social democracy in Europe in the 1990s.

We should use that turbo boost to argue more clearly for abolishing child poverty. But we should use the right methods to achieve it this time, so that we don't end up making our generation's equivalent of the mistakes of the 1970s.

At this point, I suspect some people in the room may be asking themselves two questions: first, in that case why didn't the Budget make a bolder move towards reducing child poverty? And second, why are you pressing ahead with welfare reform?

Let me take those two questions head on.

This government believes in abolishing child poverty. No other Party would have committed our country to this goal.

But the precondition of achieving it is a prosperous economy. One of the mistakes that my Party made in the 1960s and 1970s was to think that equality could be achieved at the stroke of a Chancellor's pen. This redistribution, what we could call **passive redistribution**, had two

problems. First, it risked undermining the creation of the wealth which it wanted to redistribute. Second, it jarred with people's sense of fairness – because it felt like money was being taken from those who worked hard and given to those who didn't.

Instead, I think we should be aiming for **active redistribution**. The same goal, but done in a way that learns the lessons of the last thirty years. That means redistributing in a way that encourages people to work and create wealth, and that aims to give people power rather than just transfer money.

So, right now, the goal is to return the economy to growth. It was right that the PBR should focus on immediate help, and cutting VAT is the quickest way of getting money into the people's pockets and in to the economy.

As Robert Chote the director of the Institute for Fiscal studies said "The stimulus will mean gains for households right across the income distribution next year, with the biggest percentage gains for those on the lowest incomes". The poorest will see an increase in their net income of over 3%- the biggest gain across the income distribution.

They will also benefit from the Chancellor bringing forward the Child Benefit increases to January. People whose benefits are going up by up to 6.3% will see their real incomes rise if prices do indeed fall next year.

We need to return to growth so that we can take the next steps to abolish child poverty. Our determination to reach that goal can be seen from our commitment to put it into legislation. The Pre Budget Report announced that there will be a Bill on Ending Child Poverty in the next session and we will be consulting with you on how our historic mission should be enshrined in to law.

It's by having growth that we've been able to have the biggest fall in inequality of any industrialised country. It's by having growth that we've been able to take 600,000 children out of poverty. It's by having growth, that 300,000 lone parents have been able to find work.

So, active redistribution depends on economic prosperity. But it also means helping people take control of their lives rather than just receive benefits. It speaks to a much more ambitious change. Rather than just taking the current situation as a given and redistributing income, it says that our society is unfair and needs to be changed. It is a vision that won't accept that poor children are less likely to finish school, more likely to be arrested, less likely to work.

We don't want to rearrange the deck chairs. We want to build a different kind of society.

We want to build a different kind of society because we know it's possible. In Denmark and Sweden, fewer children grow up in poverty and the link between where children come from and where they end up is weaker than in the UK. In short, children have a fairer start and a fairer shot.

The biggest difference between active and passive redistribution is the priority we give, and the Scandinavian countries give, to work. The evidence speaks for itself: A child of a lone parent who works part time is three times less likely to be living in poverty than if they were living on benefits. This increases to eight times less likely to be living in poverty if they work full time.

In Sweden and Denmark, over 80% of lone parents work. For the UK, it's just over 56%.

If we want to achieve their levels of child poverty, we need to do both sides of their bargain – a more generous welfare state, but also a more demanding one.

I've met both their employment ministers, and when I ask them how long lone parents can have on benefits before looking for work, they don't understand the question. That's because they treat lone and couple parents the same way: they have very generous parental leave, but after that there is a clear expectation that everyone who can work should work, made possible by a high-quality, universal childcare system

In Britain in contrast until this month, lone parents didn't have to look for work until their youngest child was 16. Partners of unemployed people don't have to look for work at all. Because we require only one member of a couple to claim benefit on behalf of the family, there are significant numbers who receive help but who are not required to do anything to look for work.

In many instances, the partner is in a better position to work than the claimant. In future, we will ensure that both members of a couple get the support they need to return to work.

I'm under no doubt that we are in the wrong place – that we don't offer enough but neither do we ask enough either. We should be moving towards the Scandinavian model, with better parental leave and childcare, but also with a clear obligation to work.

We've doubled spending on childcare and more than doubled the number of registered childcare places available since 1997. By 2010, every secondary school will be an extended

school, offering childcare before and after class. We've increased the length of paid maternity leave from 18 weeks in 1997 to 39 weeks now and pay from nearly £56 to over £117 a week.

That's why I think it's right that from 2010, we should be asking lone parents to look for work when their children are 7.

This isn't about sanctioning people for not finding work. It's about saying we know that the support we offer gets people in to work, and making sure people take it up.

So, we need to improve the support and increase the expectations that people will take it up.

That's exactly what we've done:

- Lone parents who go back in to work get £40 a week extra, £60 if they're in London
- The Working Tax Credit is worth £56 per week to a lone parent on the minimum wage working 35 hours
- Child benefit is worth £18.80 now, compared to £11.05 in 1997
- The £150 increase in the Child Element of the Child tax credit brings the value to up to £2235 per child per year
- From this April, Child Benefit will not be disregarded when we calculate housing benefit
- Those on low incomes can get 80% of childcare costs refunded
- Their personal adviser continues to work with them after they've started their job and can spend up to £300 on emergency costs

I think any fair commentator would say that is a transformation in the support we offer. A single parent with two children working 35 hours a week will be on £305 a week in April 2009, compared to £182 in 1999 when the minimum wage was first introduced.

So, in return we think it's right to ask more people to look for work. Not to punish anyone. But to help them take up this extra help.

And I think we should go further.

In July, I asked Professor Paul Gregg to review how we can create a system of personalised conditionality. Put simply, how we can make sure that the expectations of people in the benefits system challenging but appropriate to their individual circumstances. His report is being published tomorrow. Some of it will seem controversial to people in this room. I didn't want to come here and duck the issue. That's because I believe that his argument is right.

His argument is simple. At the moment, we treat people according to the benefit category that they are in, rather than their actual needs. That means the system is too tough for some people and not demanding enough for others.

Instead, he recommends we should move to a system where the claimant has much more control over their journey back to work. Instead of being asked to fulfil a set of conditions designed for everyone, each individual should be able to design their action plan to get back to work, supported by their personal adviser.

For people who are ready for work, that would be similar to today's JSA regime.

But Paul identifies another group, people who may not be in a position to work straight away, because of the age of their children or because they are disabled or ill, but who would benefit from keeping in touch with the world of work.

For this group, Paul recommends that they should be preparing for when they will be able to go back to work. That could involve training courses, building confidence, addressing any health problems. But the major change is that the claimant should create the action plan that would help them address those barriers.

Two parts of Paul's report will be controversial: first, he thinks that advisers should be able to require claimants to show how they are then following that action plan. Second, he argues that virtually everyone should be in one of these two conditionality regimes – everyone except people with severe disabilities, carers and parents of young children.

What Paul recommends is in line with the reforms we are currently implementing. And we're not proposing to implement his changes overnight.

But I think what Paul's report does is start a debate about what should come after our current wave of reforms, particularly once our reforms to childcare have bedded in.

Paul suggests that parents of children over one should be in a regime where they are progressing towards work. I don't have view on exactly what the age should be. But I do think the direction of travel is right – I would be interested in people's views.

I know some will disagree. But I think the key is whether we can persuade sceptics that we can design a system that is fair and personalised to the individual. That will require a further

professionalisation of personal advisers, giving them more flexibility but also making sure they are accountable.

I know this will be a debate that divides views. But I think it's the right one to have because it will ensure we lift more children out of poverty, and ensures that our redistribution is genuinely active, helping people to take control and change their lives.

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