

## **JOHN HOWARD LECTURE**

### **Introduction**

It is a privilege to join you tonight, and a pleasure to be in Australia.

This evening I want to focus on the importance of Conservatism and social justice, particularly in relation to recent developments in the UK.

But first let me say that from afar, I have long admired the Menzies Research Centre.

Your work as a public policy institute has changed national debates – and you are building an honourable legacy for Sir Robert Menzies.

Centre-Right think tanks like this one and the Centre for Social Justice (CSJ) which I established in London, have an integral role to play in refining our Conservative approach to Opposition and Government.

I am also particularly pleased to give the second John Howard Lecture.

John is a friend I've drawn much inspiration from over the years.

His work as leader of the Liberal party and Prime Minister was exceptional. In rousing Australia's 'battlers' he connected with something very powerful indeed, and led the way to bold, reforming government.

Like Lady Thatcher he has an exceptional clarity of vision – as prime minister he knew exactly where he wanted to take the country – and this, I know, enabled him to lead for so long.

And on a personal note I've been hugely grateful for John's exceptional advice. Particularly, I recall his guidance immediately after I had stepped down as Conservative party leader, when he urged me to continue pursuing the ideas I had attempted to work on as leader of the Opposition.

He is undoubtedly one of the great post-war Conservative leaders.

### **Conservatives and poverty**

And it was during my time as Conservative leader that I began to turn the party's attention to people left behind by society.

Despite then being the world's fourth largest economy, Britain was constrained by some very deep social problems:

- Educational inequality was a scar on our society – our poorest children were being failed by the institutions designed to give them a future.
- Crime was high and the fear of crime higher still – people lived in growing uncertainty as they walked the streets and tried to get on with their lives, particularly in deprived neighbourhoods.
- An OECD report looked at our children's wellbeing and found the UK in poor shape.
- And too many social housing estates had become 'no go areas' for police officers but rich hunting grounds for drug dealers, street gang recruiters and violent money lenders.

It seemed obvious to me that those on the Centre-Right had a responsibility to enter these debates, and help to find solutions.

For too long Conservatives had left this area to the left, only occasionally making forays to attack spending on welfare, and everything was viewed through the lens of saving money or catching scroungers, (or should I say bludgers).

Yet whilst this might encourage the dyed in the wool Conservative supporter, it remained a wholly negative message and allowed the left to characterise Conservatives as simply interested in cutting benefits.

The more I looked at this, the more I believed that this caricature needed to be changed. The history of the Conservative Party in the UK has always been one of social reform...

What else would you expect from the Party of Wilberforce, Shaftesbury, Disraeli and Churchill?

Conservatives have every right and motivation to have concerns about the social fabric of their nation. It is in the DNA of Conservatives to believe instinctively in aspiration and mobility. Why then wouldn't we, when we look at the large numbers of people trapped in dependency, want to change that to help them improve the quality of their lives and those of their children.

The left's narrow measurement for social concern rests on the amount of money spent - it should be a Conservative obligation to change that test to what money is spent on, and importantly what life change it achieves.

So there is a Conservative philosophical reason to be focussed on poverty. But there is, as ever, another good reason. ...such problems demand our attention for economic reasons too.

The cost of such social failure drives high and rising public expenditure:

In the last decade or so working-age welfare expenditure has increased by some 50% - and that during a period of growth.

Over a similar period police expenditure had risen by 50 per cent in real terms and spending on prisons by a third.

Britain has been spending more and more money trying to tackle the effects of poverty, through a growing state, yet the outcomes are poor.

So for Conservatives who believe in a healthy economy, it is not enough to simply dismiss poverty as someone else's problem – or even a problem for those on the Left of politics to deal with.

Even in the rhetoric of the debates many had become paralysed, lost or they had given up altogether...

Consider the very concept of social justice for example.

I recall people in the Conservative Party having maddening Hayekian debates about how the idea of social justice was a contradiction, as 'social' was collective and 'justice' individual

- Conservatives love nothing more than a good argument about the meaning of words.

But these terminology arguments were utterly detached from the British people, and they marginalised Conservatives even further in the eyes of the electorate.

We asked through a series of polls what the term "Social Justice" meant to the public.

Interestingly, they had a much more generalised sense of what the phrase meant. They rejected the notion that it meant a bigger state or increased spending on welfare.

Instead they felt it meant support for people in real need and support for those who are helping them.

In other words, it spoke of decency and not socialism.

This has helped me point out to my colleagues that when we spent so much effort publically disavowing the term it left us appearing as uncaring or even crass.

### **Misunderstanding poverty**

The result of all of this is that we have ceded this area to the left who have for too long set the terms of the debate and correspondingly willed the means. The consequences in my country are all too obvious.

13 years of Labour rule demonstrated how the Left's approach is grounded in a very narrow understanding of what poverty is, and how it can be solved.

Policy-makers became fixated with levels of income, rather than asking *why* people were living in poverty.

A poverty line became the benchmark by which all policy had to be measured. Yet in reality this line told us nothing about the root causes of problems.

According to this approach, poverty was simply about a lack of money – and so the solution they pursued became income transfers through benefit payment increases, tax credits and a growing welfare system.

Worse still this fuelled a short-term political approach to government.

For by measuring poverty in such an arbitrary way, politicians could tweak welfare payments to increase income for narrow groups and apparently 'lift' some people out of poverty.

Superficial headline victories were hailed with a wave of a pen or a catchy ministerial initiative.

But a few extra pounds in the pocket didn't actually change people's lives or given them opportunity.

Does anyone honestly believe that increasing a family's welfare payments slightly will mean their children are more likely to form stable and healthy relationships, achieve at school or find a job as an adult?

Imagine, for a moment, an alcoholic mother living with two young daughters – would those children's lives change by giving their mother more money?

You'll change nothing for those children unless you also transform their mother's life.

And the inadequacy of the previous UK Government's approach was borne out by statistics.

More than £150 billion has been spent on a system of targeted tax credits since 2003, in many cases with the aim of pushing families with children just above the poverty line.

But progress was weak at best and by the time Labour left office, income inequality had reached record levels. And perhaps worse, the poorest groups in society went backwards.

So we should be clear:

Income matters, but the root causes of poverty and the *source* of income matter more.

## **Understanding the root causes of poverty**

Dealing with the root causes of poverty— rather than its symptoms —was the reason I established the CSJ, an independent think-tank.

From the outset I spent a great deal of time in the UK's most disadvantaged neighbourhoods – asking questions and seeking to understand what life was like in those seemingly forgotten places.

In the unseen chaos of dysfunctional homes and schools, I met a section of British society that had been completely left behind.

I saw the poor healthcare, the discarded needles in vandalised playgrounds, the boarded windows and broken street lights.

Crime terrified families, but it also sucked in too many people who lived on these estates.

Almost everything these people knew and experienced suggested government and society had given up on them.

Yet in the heart of many of these communities were voluntary community groups led by inspiring people – they held the secret of what leads people into poverty. It was that knowledge that shaped our definition of the 5 'pathways to poverty':

- Family breakdown;
- Educational failure;

- Severe personal debt;
- Drug and alcohol addiction;
- And welfare dependency – often characterised by intergenerational worklessness.

They are interconnected and move from generation to generation:

...A child who experiences family breakdown is more likely to fail at school...

...A child who fails at school is less likely to find employment and more likely to be dependent on benefits...

...A person on benefits, living on a very low income, is more likely to be in debt...

And debt is one of the main causes of family breakdown.

### **The flicker of hope**

Those who shaped the definition of the pathways to poverty were working in communities that the state simply failed to reach. They are ordinary people doing extraordinary things.

Where the state had no answers, I think of courageous rehabilitation pioneers taking the most damaged heroin addicts into full recovery...

I think of .....

.....the unique residential charity fostering entire families and saving children from the black hole of Britain's care system...

...and the youth workers offering violent gang members a way out.

These people and countless others like them are saving and transforming the lives of those cut adrift.

By their success they prove, beyond any doubt at all, that beating poverty is about changing lives, not just giving people more money.

And by seizing their second chance, those they helped showed that most people will do the right thing if given an opportunity.

And this gets to the heart of why Conservatives should embrace social justice.

Instinctively, we understand that it is better to trust people because generally they do the right thing by themselves and their families.

In this I believe society is governed by a dynamic of collective self-interest. As we grow, our horizons and values are shaped by education, relationships and community.

In this natural process as we develop from being single to being engaged in relationships, we move from self-interest to collective self-interest.

The point is that social policy has to grasp this to succeed...

...yet the potential of people to change their outcomes is something the Left has often rejected.

Too many such governments have sought to remove that freedom, seeing the poorest like children in need of direction, in so doing, extending their dependency on the state by degrees.

## **An un-ambitious Left: the welfare legacy**

During the last year my role in the UK's coalition Government has brought me face-to-face with the legacy of static public policy.

Before entering government, my work at the CSJ had identified welfare dependency and worklessness as the epicentre of much of the poverty that blighted the UK.

Without meaningful and stable employment, or the prospect of it, lives can lack purpose. Children born into a culture of worklessness – who sometimes grow up not seeing anyone leave for work in the morning – often repeat the patterns of their parents.

Getting somebody into work can dramatically change their life, family and circumstances.

But in May 2010, when I became Secretary of State for Work and Pensions, I inherited a broken welfare system.

It was a system so dysfunctional and perverse that poverty had become the only possibility for many caught up in it.

It was absurdly complex – more than 30 different types of benefit were governed by a maze of rules, regulations and disincentives.

Officials and claimants were equally bemused by it.

For too many benefit claimants, choosing to take up work was seen as a poor choice. That is because, someone moving into part-time work would find that they could end up losing even as much as 95% of what they earned– due to high tax rates and punitive levels of benefit withdrawal.

The result became an inflexible system which no longer encourages someone to seek work.

Today, the benefit system must recognise that the decision to take work, for the majority of people, is fundamentally a practical one.

The effort you make in finding employment should be financially rewarding, yet the British welfare system assumes the poorest people would take work even when it clearly didn't pay.

I suspect none of us here tonight would work for 90 % tax rates, especially if we could earn reasonable money for no effort at all, that is what the system does in the UK.

This has resulted in intergenerational worklessness becoming a logical choice for too many in Britain:

- Despite record economic growth in the UK economy – 63 successive quarters of it – some 4.5 million people of working age were living on out of work benefits before the recent recession in the UK even started;
- Now, over one million have been on out of work benefits for more than 10 years;
- And most inexcusable of all, almost 2 million UK children live in households where no one works.

In parallel with the lack of financial incentive to take work, there was poorly targeted help for those who were expected to look for work.

Welfare to work schemes were too often measured by process and outputs – such as the number of people entering and

completing programmes, rather than outcomes – such as whether jobseekers were entering and staying in work.

Support tended to be state-run, clunky and impersonal.

All this meant we were failing those in the system, not to mention the taxpayers whose money was poured in to prop it up.

### **Transformative policy: reforming welfare and rebuilding society**

Yet after a year in Government, I believe we're beginning to steer a new course for welfare and social justice.

We have launched the biggest system shake up since the Second World War.

### **Universal credit**

At the heart of this is the Universal Credit, a single integrated welfare payment which will replace a number of benefits and tax credits.

Not only will this be simpler for claimants to navigate, it will be designed to make work pay at any number of hours.

Claimants will have a 'disregard' – the amount of money they are allowed to earn before their benefits are withdrawn – and then a 'taper rate' – which determines the rate at which the Universal Credit is withdrawn as they increase their hours.

This taper rate will be set at around 65% for every claimant at every hour of work.

No overlapping tapers, no cliff edges, just clear incentives to move into work.

We anticipate that the move to the Universal Credit could move almost one million people out of poverty and – critically – the gains from the change will overwhelmingly accrue to those in the bottom half of the income distribution and all this is before the dynamic effect of the Universal Credit cuts in.

## **The Work Programme**

So getting the incentives right is vital, but we also have to get people ready for work who have been out of work for some time.

This isn't about skilling them up with some Government inspired skills programme, but about building their confidence, helping them to present themselves and sell themselves.

That's what our new Work Programme is doing.

But I must confess that in developing this Programme we have taken a great deal of interest in Australia's welfare to work schemes.

I was especially keen to learn from your pioneering transition, launched by the Liberal Government in 1998, from state-run employment services to voluntary and private sector provision, through the Jobs Network and now Job Services Australia.

As a country Britain has taken too long to understand the basic message that we shouldn't be so concerned with who delivers support or how they do it, but whether what they do actually works.

We should be relentlessly focussed on outcomes, and that's what the Work Programme is about.

We're contracting with the best in the public, private and voluntary sectors, paying them almost entirely for the results they achieve in getting people into work – and then keeping them there.

It's a single programme, but – as in Australia – we are using a system of differential pricing to make sure there is support for the hardest to help.

So if you help someone who has spent 10 years on sickness and disability benefits to find a job you'll get a much higher payment than if you help a typical jobseeker.

Keep them in work for 2 years and you'll get the biggest payout.

All of this is about changing lives and rewarding personal responsibility.

We are trying to build on what is best about the voluntary sector – those leaders I talked about earlier.

A large proportion of the Prime and sub-prime Providers in the Work Programme are drawn from organisations from the voluntary sector.

These are so often the organisations which have the knowledge, skills and experience to make a real difference to people's chances of finding work.

## **SANCTIONS**

And underscoring all of this is a simple system of sanctions should someone refuse to cooperate. If they work with us we will help get the claimant into work but refuse and they will lose

benefit. This is part of our contract with the taxpayer who is also part of this process, as it is taxpayers who pay for it.

## **Disability reforms**

But there is a third change we have to make if we are to enable all households to benefit from work.

We have to reform our system of support for those groups that have been written off on inactive benefits for too long – particularly many disabled people.

This is part of the reason why the demand for our main disability benefit has risen by 40% for children.

But we know that there are many disabled people who can work and want to do so, and it is completely unacceptable to leave them written off on benefits.

That's why we're moving to a model that is about asking what people can do, rather than focussing on what they can't, with regular objective assessments of everyone on incapacity benefits to assess changing conditions.

Those who are ready and able to work will be moved onto Jobseeker's Allowance – our system of Unemployment Benefits.

Those with a sickness or disability that affects their ability to work will be moved onto a more supportive benefit – the Employment and Support Allowance.

Where their condition makes it difficult to even take steps towards work they will receive unconditional support at the highest rate.

We are taking a similar approach to Disability Living Allowance.

Because it is available in and out of work this is not a question of work support.

But it is about introducing a clearer and more regular assessment, one which looks more carefully at how a condition affects someone's life.

We have to have a much more positive and proactive approach to disability, breaking a culture which sees people as fundamentally static.

## **Lone parents**

And we are taking the same approach to lone parents, another group who have been unfairly written off.

In the past little distinction was made between those whose caring responsibilities precluded them from doing any work at all, and those who were able to work within certain parameters.

Prior to November 2008 lone parents could claim inactive benefits – known as Income Support – until their youngest child was 16. Now as a result of the changes we are making it will be reduced to five.

Every household that can work should have work.

This is a welfare reform package which has its roots in Conservatism. It is about trusting people and giving them a chance to build better futures.

### **Strengthening families**

All of this brings me to one of the most important issues facing society – that of the growing levels of family breakdown.

Family breakdown in the UK is at historically high levels. For too long policy makers have ignored the effect of dysfunctional family formation on the character of communities and the future prospects of the children growing up in them.

During my time at the Centre for Social Justice I determined that it was the role of government that we did what could to change the scale of the levels of family breakdown that we now experience.

What is vital is to ensure that government creates a level playing field for people as they form families.

One of the favoured attacks of the establishment left is that to do anything in this area is to unfairly favour married families. They are wrong.

Yet what we have witnessed over the last decade or so is not neutrality in government policy towards family formations, particularly marriage, but what in effect amounts to an assault on the whole idea of marriage and long term commitment.

Whilst I accept that the state has no business lecturing people how to live their lives, it does though have a duty to at least be fair to those who choose to make sacrifices so that their children can be brought up in a stable and loving home.

I am someone who believes in following the evidence and the work of the CSJ shows what happens to children's outcomes when families break down.

Armed with that evidence, we need to do much more to help people stabilise and form their relationships. It is clear that people respond to incentives and disincentives – and currently in the UK there is a damaging financial discouragement to couple formation, despite its stable outcomes for children.

That's why I intend that our welfare reforms make an impact on the couple penalty where it matters most – amongst families on the lowest incomes.

Alongside that the Prime Minister has made it clear that we will, in this Parliament, recognise marriage in the tax system.

## **Conclusion**

I don't come here to give advice or lecture you about strategy, nor do you need me to.

You have an impressive legacy as a party and you were led exceptionally by the man we have come to celebrate tonight.

But I do say the message on welfare reform should be more than just a story of cuts. As I have outlined, our life-changing message as Conservatives has never been more necessary.

Several years ago there was a deep need for change in Britain's Conservative party. We had suffered major election defeats and had become out of touch.

As leader I began a process of thinking anew about social reform and the need to reconnect with the aspirations of the British people – particularly those who had been let down by failed Government.

And through the work of the Centre for Social Justice, a tired debate about poverty and social justice has been radically reinvigorated.

Instead of a stilted and often shallow debate about cuts versus spending, the real debate now centres on the question of how reform can achieve life transformation.

But isn't that what conservatives have always been about? Helping people to take control of their lives and strive to meet their aspirations. An optimistic message of a society where no one is discarded and no one is left behind...

...that is surely our true tradition.