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# Is new Labour working?

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Foreword  
Tony Blair

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## The Fabian Society

The Fabian Society is Britain's senior think tank. Concerned since its foundation with evolutionary political and economic reform and progressive social change, the Fabian Society has played a central role for more than a century in the development of political ideas and public policy on the left-of-centre. The Society is affiliated to the Labour Party but is editorially and organisationally independent. In recent years the Society's work on the modernisation of the Labour Party's constitution and its analysis of changing political attitudes have played a significant part in the renewal of the party's public appeal.

Today the Fabian Society seeks to help shape the agenda for the medium and long term of the new Labour Government. Analysing the key challenges facing the UK and the rest of the industrialised world in a changing society and global economy, the Society's programme aims to explore the political ideas and the policy reforms which will define the left-of-centre in the new century. Through its pamphlets, discussion papers, seminars and conferences, the Society provides an arena for open-minded public debate.

The Fabian Society is unique among think tanks in being a democratically-constituted membership organisation. Its five and a half thousand members engage in political education and argument through the Society's publications, conferences and other events, its quarterly journal *Fabian Review* and a network of local societies and meetings.

## Modernising Britain

The Prime Minister has made the modernisation of Britain a key theme of the new Labour administration. The concept of 'the modern' has a long and complex history. The Fabian Society's programme seeks to examine what modernisation might mean - politically and culturally - as Britain enters a new century.

In some fields the idea of modernisation is clear. In key areas of British life there are many old institutions which no longer meet the challenges of today's society. One element of the Fabian Society's programme focuses on how such institutions can be reformed. But in other fields the idea of modernisation remains open for debate and challenge. The programme seeks to ask what kind of country Britain should be in the 21st century, exploring our cultural identities and social structures. It aims to explore different visions of modernity and their implications for public policy.



# Is new Labour working?

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## Foreword

### Tony Blair

Back in 1979, the Conservatives claimed, "Labour isn't working". It's been a long and painful journey back from that defeat, but it's a measure of our success that today's Tories don't even dare to make the same charge. As they retreat into a narrow, opportunistic form of opposition, the facts speak for themselves. New Labour is working. It's working as a political project, working as a government, and working to deliver real change. When we say, as we do, that we're for the many not the few, it is more than just a slogan. It reflects the real divide in British politics at the beginning of the 21st century.

We are working to make Britain better - step by step. For some, that pace is not fast enough. They want results, and they want them now. I understand that. But it takes time to stop the rot and to put the right foundations in place. Having done that our emphasis now is on delivering real progress, especially in the public services. I accept that this can be difficult, but that's what being in government is all about. Securing the changes we need can be a lengthy process, but it is vital if we are to secure the transformation of Britain which we were elected to bring about.

In May 1997 we started on the road of modernisation at a cracking pace. We acted swiftly to make the Bank of England independent and to set up the New Deal. We've gone on to introduce the first ever national minimum wage and invest £40 billion extra in health and education. Soon the Working Families Tax Credit will be helping to make millions of hard-working families better off. The Tories opposed us all the way, but now that the Bank's independence has been shown to be right they are shifting their ground. They may well try to do the same on other policies where new Labour's approach has now been shown to be working. But on this, and on everything else, the public will remember how they voted, where they stood. As we discovered in the long years of opposition, people have long memories and they don't forgive easily.

There will be no slowing down in the pace of change. There's too much to be done to slacken off now. If anything, the speed of our modernisation programme will be accelerated. By definition, modernisation has to be a continuous process. Improvement is not just reached, and then achieved. Modernisation and improvement have to be a permanent drive to ensure that things really are getting better.

There's been a lot of attention, of course, to our constitutional changes. I'm proud of how quickly we managed to establish the Scottish Parliament and the Welsh Assembly. They're now proving themselves and, despite the carping from those who opposed them, I'm convinced that very soon people will find it hard to imagine life without them. Lords reform is underway and the hereditaries

are on the way out. We're modernising procedures in the House of Commons, so that even more people from all walks of society will consider politics as a career. Before the election, people said that the new Labour Government would become bogged down by its constitutional agenda. Like so much that they said then, it's proved to be utterly false. The constitutional changes are important, but they're not what most people put us into government to do, and we haven't been distracted from the real agenda: education, health, welfare, crime and transport.

To help us deliver real change on those issues, there have been important innovations in the way government goes about its business. In the past, different departments tended to plough their own furrows. This is the first truly 'joined-up' government. The Social Exclusion Unit and the Performance and Innovation Unit are just two examples of that. The radical three-year Comprehensive Spending Review has allowed departments to get on with the job, without the distraction of annual battles over money. And the Chief Secretary to the Treasury now makes sure that all departments meet exacting performance targets year on year.

This year's Annual Report on the Government's record made clear how much progress has already been made and acknowledged honestly what still needs to be done. The essays in this Fabian pamphlet go further. They explain *why* we're doing what we're doing. They set out the values and principles that underlie all we do. In short, we want to create a country where fairness and opportunity go hand in hand, where economic efficiency is married to social justice. That's the new Labour message.

We welcome an intelligent debate about our principles and policies, but with an ineffective and opportunistic opposition we don't always get one. So I welcome the fact that ministers' views are assessed here by independent outsiders. I may not agree with everything they say, but if it means we can have a serious and principled debate about how we're doing then that has to be healthy.

New Labour *is* working. There is a lot more to do. But we are on the right course. We are determined to deliver our programme of modernisation and reform – applying our values to improve Britain.



## Introduction

Michael Jacobs

Mid-term represents a crucial moment for the new Labour Government. We are perhaps as little as two years away from the next general election. The Government has started to be judged on its achievements.

New Labour asked for this – literally. Its famous five election pledges were an explicit attempt to write a contract with the public: vote for us and this is what we will deliver. But the manifesto actually contained many more promises than this: 177 of them to be precise. In government Labour has now published two Annual Reports reminding people of these promises and setting out the progress the Government is making (and in some cases not making) towards them.

Some have complained that all this represents a very 'managerial' approach to government. But there is actually something more profound about it. Over the last two decades there has been a dramatic decline in the public's trust in government – indeed in the whole system of political institutions and the politicians who run them. A trail of broken promises and under-performing public services has left a legacy of cynicism and resignation towards the apparently inevitable failure of public bodies. By exposing its promises to public view, setting out measurable targets to be achieved, and seeking explicitly to be judged on them, this Government is attempting to stem the long-term decline in public trust. But it is a high-risk strategy. If the Government fails, the effect on the public's belief in politics could be terminal.

All governments want to govern well. But this is particularly important for governments of the left of centre. If you believe in public services, in the ability of democratically elected government to provide for the public good, the importance of actually delivering quality services is fundamental. For Labour, which has never served two full terms of office, the imperative could hardly be greater. The history of the 20th century shows that it is the Tories who have been the 'natural party of government'. If the 21st century is to be different, the first term achievements of this administration are critical.

This is true even for the government's critics. Many people would like to see more resources put into public services. But the public's support for this is dependent on prior evidence that those resources will be spent well. Proof that the Government can bring about improvement is therefore crucial to any future debate about Labour's priorities. This incidentally makes the Government's approach to constitutional and administrative reform, far from being the side issues some have assumed, central to its programme.

As a left of centre think tank affiliated to the Labour Party these concerns are close to the Fabian Society's heart. So we asked seven Government ministers to



set out what they had been doing in their first two years, what their plans were for the rest of the Parliament; and, most importantly, why. We wanted to get clear the strategic vision. We then asked seven independent commentators to respond, examining the Government's policy agenda and success in delivery. This pamphlet is the result.

There were many more areas of government policy we could have included – foreign policy, culture, environment. And there is certainly much more to be said by way of comment and reaction. But if we can contribute to a serious debate about the Government's record so far, and its future plans, the pamphlet will have served our purpose.

# World class education for all

David Blunkett

**For most of the 20th century, as Tony Blair said recently, "the fundamental failure of British government has been a failure to attach sufficient importance to public education for the broad majority of people". It should no longer be the case that the difference between the best and worst schools in identical socio-economic circumstances is so great. On the brink of a new century, we have a unique opportunity to put this tainted legacy behind us and create a world class education service.**

Up and down the country there are many innovative and successful schools taking up the standards crusade. They have high expectations of every pupil, excellent teachers, effective leadership from headteachers, access to up-to-date technology, and strong links with local businesses and universities. Our challenge as a Government is to cherish schools like these, learn from them and put in place policies that ensure every school has the opportunity to match them. To do so, we must have high expectations of everyone, regardless of background or circumstances. We must target support to those who need most help to reach those high standards. And we must change the culture. The tradition of blaming everyone else for failure is being replaced with a culture in which everyone, not least the Secretary of State, accepts responsibility for improving pupil performance. Delivering results requires good policies, well-implemented and a great deal of hard work. To paraphrase Bertolt Brecht, the new dawn of high achievement for everyone will not come after a night of sleep.

## **A strategy for excellence**

We set out our strategy for achieving our ambitions in the White Paper, *Excellence in Schools*, published just 67 days after the election. Teachers and our other educational partners have responded since then with great commitment to implementing that agenda. Our approach has four key elements: laying firm foundations in the preschool and primary sectors; the promotion of improvement in all schools; a drive for social inclusion; and the modernisation of the comprehensive system.

If we want a world class education service in the next decade we must first of all lay firm foundations, which means doing everything we can in this Parliament to get the best primary education possible. We are already delivering on this challenge. The £540 million Sure Start programme joins up education and health advice for the parents of very young children. We are ensuring nursery education for all four year olds, and doubling the number of places for three year olds. Our class size pledge is ahead of schedule, with 130,000 youngsters

in classes of 30 or less, rising to nearly 300,000 by September 1999. The pledge will be implemented on time and in full by 2001.

Meanwhile our literacy hour is in place in almost every primary school. A year ago many heads were anxious and resistant to the literacy strategy. Now independent opinion polls shows that around 90 per cent of heads support it and nearly 60 per cent believe it will significantly raise standards. In little more than 12 months there has been a cultural transformation. There may still be debates about details of how to teach phonics now – but no-one any longer debates whether to teach phonics. Similarly, the daily mathematics lesson, which does not officially begin until September, is so popular that two-thirds of schools have implemented it early. Taken together, these initiatives amount to no less than a revolution in primary education. They provide a real chance to usher in a modern, forward-looking primary sector for the new century.

The second component of our approach is the promotion of improvement in the whole school system – across primary, secondary and special schools. We have done this by delegating as many resources as possible to schools, giving them responsibility for improving themselves. We provide them with good benchmarking data to enable them to compare themselves to other schools and ever-increasing access to advice on best practice, from the Standards Site on the Internet to the beacon schools programme. Just as we provide support for improvement, so we provide pressure too – through regular inspection, published targets and the performance tables. This combination of both pressure and support is driving improvement just as it has done in other countries. And where under-performance is identified, either at school or Local Education Authority (LEA) level, we will not hesitate to intervene to ensure pupils get the education they deserve. As a result of our robust approach, the number of failing schools is now falling steadily, and the time it takes to turn round a failing school has fallen from an average of 25 months when we came into office to only 18 months now.

The third element of our strategy is the drive for social inclusion. In the long run, the literacy and numeracy strategies will make a crucial contribution here too, but other important policy developments are already making a difference. As a result of our Green Paper on special educational needs (SEN) almost £60 million has been made available to support SEN pupils and improve access to buildings. Meanwhile LEAs have targets to reduce truancy and exclusion by one third by 2002. The number of permanent exclusions fell in 1998, for the first time since figures have been collected. Over £500 million is being invested in in-school centres for excluded pupils, electronic registration schemes and other initiatives. The over-representation of certain ethnic minority groups among those excluded is also being tackled by publishing the relevant data, using Ofsted to inspect annually schools with high levels of exclusion and challenging the worst offending LEAs to tackle the problem.



We have made good progress on reducing the percentage of pupils who leave school with no qualifications - falling from 7.7 per cent to 6.6 per cent in the last academic year. Our goal is that as many as half of all pupils should take advantage of the academic challenge of higher education, while those with different aspirations should have the knowledge, skills, understanding and attitudes to equip them for a place in a job market.

The fourth core feature of our programme is the modernisation of the comprehensive system. The system developed in the 1970s and 1980s has not delivered what its advocates hoped for, never mind what we require for the 21st century. Some schools have prospered, but not enough. Where grammar schools exist, it is a matter for parents to decide on admission arrangements. However, the vast majority of secondary schools take children on a non-selective basis. What parents want to see are schools which provide diversity within the campus and meet the needs and aspirations of all children, whatever their talents, abilities or learning needs. We need schools which focus on individuals, which challenge each pupil always to do better, which are unashamed about excellence, which remove barriers to learning wherever necessary and which link young people to opportunities in other schools and out-of-school. We need schools which focus on what works and abandon a dogmatic attachment to mixed ability teaching. No pupil's education should be confined or restricted simply because of the school they happen to attend. Our modernisation programme is advancing towards this goal. We have already doubled the number of specialist schools and will double it again to at least 800 schools - nearly one in four of all secondary schools - by 2003. These schools, all with strong support from business, have improved their performance at twice the rate of the average comprehensive, as well as increasing the diversity of our schools system. This is an ambitious programme of modernisation by any standard. Our goal is nothing less than to transform both the reality and the perception of comprehensive education, providing a system which all of us are proud of and which parents of all backgrounds believe can fulfil the needs and aspirations of their children.

### **Against elitism**

There are still too many in the education world - a shrinking minority, but still too many - who hanker after the quiet life of the past when the failure of half our pupils was taken for granted. In spite of the progress, some researchers are so obsessed with "critique", so out of touch with reality that they churn out findings which no-one with the slightest common sense could take seriously. For example, a report from Durham University recently suggested that daily homework is bad for children. If that is so, why is it such a firm part of provision in independent schools and good state schools? Why is it that past research has shown its importance in extending opportunity especially for those from disadvantaged circumstances? Our policy recommends that parents should read with young children for 10 minutes a day and that older primary school pupils



might do 30 minutes of homework a day. The vast majority of parents see this as straightforward common sense. They want to help their child learn and welcome the help and support of the school in doing so.

There are those who say that our focus on literacy is a threat to creativity. They have even compared our strategy to the approach of Thomas Gradgrind (revealing their ignorance not only of our strategy but also of Dickens' masterpiece *Hard Times*). The reality is that the literacy set out in our Framework – poetry, prose, drama, literature, the exercise of imagination – underpins much of creativity in a way that would have appalled Gradgrind but no doubt delighted Dickens. In addition to delivering the emphasis on phonics, spelling and grammar which business and parents have demanded for so long, the Framework recommends, for example, that at age 6 pupils learn “to collect poems for class anthologies” and “participate in reading aloud”, at age 8 pupils learn to write “portraits of characters” and “new or extended verses for performance”, and at age 11 pupils should learn “to write an extended story, worked on over time”. It is precisely because we want pupils to think for themselves and to develop their creativity that we have set our target at Level 4 – reading and writing well – rather than at a basic level.

When critics say the strategy inhibits creativity what they really mean is that it prevents the ill-disciplined, “anything goes” philosophy which did so much damage in the last generation and meant that, when we were elected, over 40 per cent of eleven year olds couldn't read and write properly and 20 per cent of the adult population were functionally illiterate. No doubt the critics will continue to bluster. But we, in partnership with primary teachers, will deliver higher standards of literacy and numeracy as well as broader minds and enhanced creativity.

Then there are those who believe that our Early Learning Goals amount to “hot housing” children aged three to six. On the basis of a misunderstanding of early years education in central Europe and a failure to acknowledge the evidence from our own country, they argue that expecting most children to be able to count to ten and write their own name before they are six amounts to expecting too much. Fortunately, in the consultation exercise we conducted 95 per cent of respondents rejected this nonsense and stood up for common sense. Critics like these, in their various guises, tend to share one important characteristic: they would never apply their views to their own children, only other people's.

New Labour will not tolerate this blatant elitism dressed up as well-intentioned liberalism. When we say we want high standards and opportunity for everyone it is not just words - we mean it and we intend to deliver it. Instead of patronising the children of families in challenging circumstances we will target support to help them learn and we will remove, one-by-one, the barriers that prevent them from achieving their potential. There is no greater injustice than to give a child a poor education. By giving everyone a good education - including the capacity

to be creative - we will open the gateway to work for every young person, we will lay the foundations for a successful economy and we will liberate literally millions of individuals from that agonising sense of low self-esteem and low confidence that has sapped the energy and damaged the lives of so many people in previous generations.

### **Investing in education**

Our commitment to invest in education is, even at this early stage, making a visible difference. Around 10,000 school buildings have been improved through the New Deal for Schools. Over the course of this Parliament, capital investment in schools will have doubled. Revenue funding will increase in real terms each year for three years. This will enable us to right some of the wrong we inherited. For example we have provided money to enable schools to buy an extra 23 million books and we are investing £180 million in school music to extend opportunities for instrumental tuition.

We have placed a particular emphasis on investment in Information and Communications Technology (ICT). ICT has the potential to transform educational opportunity, raise standards for pupils and prepare them much more effectively for work. It is the way to ensuring a confident workforce at the cutting edge of change. By 2002 the education service will be fully equipped for the ICT revolution: every school will be networked. We are investing almost £700 million to make this possible - already 30 per cent of primary schools, 45 per cent of special schools and 90 per cent of secondary schools are part of the National Grid which receives 1 million hits a week; and above all, we will invest £230 million in training teachers so that they can ensure ICT makes a difference where it matters - in the classroom.

### **Working with partners**

Traditionally the education service has too often been introverted and out of touch with the mainstream of social change. The priority we attach to education will help to change that image as will our determination to create new partnerships across public sector boundaries and between the public and private sectors. This means schools working with an imaginative range of partners including libraries, museums, community centres, universities, colleges and the 36 Premier League and Nationwide Division One Football Clubs who are committed to our Playing for Success initiative. This last initiative alone is already providing learning opportunities for 16,000 pupils.

We are also encouraging new partnerships among LEAs who are finding innovative solutions to shared problems. Shropshire and Telford and Wrekin, for example, share an advisory service. In addition, our Education Action Zone programme means that in places like Newham and Sheffield education and other services are working with major companies to expand opportunities for teachers and pupils and to raise standards. Our planned National Leadership



College will build on the growing experience of links between school and business leaders - such as the Business in the Community headteacher mentoring programme - to ensure that our school leaders learn from the best leaders in any field and indeed in any country.

### **A vision for teachers**

Success in the 21st century will depend crucially on having an ambitious, forward-looking, outward-facing teaching profession in which success is recognised and rewarded. This means a profession which is well-led and properly supported, with teachers who have time to teach and keep their skills up to date. We need a profession which is perceived by society as leading us into the learning society and in which ambitious graduates see opportunities for rapid career advancement. Our educators need to have the same confidence in themselves, the same ambition, the same relish for change, that we find in our best businesses.

There is a huge groundswell of support among parents, governors and teachers for a new vision of the teaching profession and a recognition that the current state of affairs in relation to recruitment cannot continue. Last year fewer than 20 of 1450 graduates from Imperial College, London went into teacher training. But perceptions are already starting to change. As a result of the new £5,000 incentive scheme, teacher training applications in maths and science have risen sharply - 36 per cent up in the case of maths. In addition, we have introduced a new National Curriculum and explicit standards for all teacher training and legislated for the creation of a General Teaching Council (the teachers' equivalent of the General Medical Council), which will start work next year. The National Teaching Awards will also help to change attitudes. But these are only the first steps. Until there is genuine reward for proven success in both management and the classroom, talented graduates will tend to look elsewhere.

We should not, therefore, underestimate the scale of change required. We have a historic opportunity to enhance the rewards, opportunities and status of all good teachers. In return for rigorous assessment, we are proposing a significant pay increase for a large proportion of the profession. Every teacher will get the annual pay award of course, but significant extra money will be available for those who meet high professional standards. This is not a case of new obligations being imposed for no extra reward. On the contrary, teachers who pass the new threshold stand to gain £2,000 which would not be available through the annual pay increase. We are providing this investment because we are convinced that it is right to make it possible for good teachers to gain higher rewards in recognition of their performance.

In addition, annual appraisal, as it applies in so many other professions, should become part of the system, including an assessment of the progress made by pupils. After all, there is nothing that matters more to schools than the quality

of teaching and the achievement of pupils. We will ensure that our approach to performance management takes into account the challenge of the job and the demands the pupils make. In return, we are ready to make a massive new investment in the teaching profession – £1 billion over two years, covering not just pay but staff development, training, and the whole infrastructure of the profession. Business people and indeed school leaders know only too well the competing pressures for resources and the absolute requirement to be able to justify decisions about priorities. We are proposing money for modernisation – serious investment in return for necessary reform. The Government, supported by the wider public, cannot and will not proceed without that fair exchange.

### **A world class education system**

Over the next three years education will get the most sustained spending boost in our history. It must deliver the results on which the future of the British economy and British society depend. We have a real opportunity to put a century of mediocrity behind us. At last the circumstances are in place for state education to demonstrate that it can deliver for the disadvantaged and alienated as well as the affluent and aspirant. By working together, we can create a truly world class education service.



### David Reynolds

The Government's educational policies are rational and comprehensive. The focus on the early years and on primary education is a sharp corrective to the British obsession with secondary schools, and is in accord with the academic evidence showing the effects of schooling in this phase. The focus on improvement through 'pressure and support' is in line with the research evidence about 'what works'.

The dual strategy of modernising comprehensives through setting - which reduces the range of achievement that teachers have to deal with - and encouraging schools to specialise, is to be welcomed. In addition, the system's tendency to exclude those it has failed, and then blame them, is rightly being replaced by a new emphasis upon inclusion and high expectations of all children. Most important is the focus on the variation in quality of schools; the aspiration being that all schools should be brought up to the level of the best. These policies will help generate the 'world class schools' that the Prime Minister and Secretary of State want. However, an impartial assessment must admit to concerns in four main areas.

Firstly, there is the issue of resources. The increase in public spending on education will push education spending to 5 per cent of national income by the end of this parliament, still a full one per cent below its peak and approximately two-thirds of a per cent below comparable industrial nations. This relative poverty of resources means that British class sizes will stay larger, British teachers more overworked and British schools more under-resourced than those of our economic competitors. If we wish for truly world class schools, we may have to embrace world class expenditure levels.

Secondly, generating school improvement may necessitate looking at international experience more closely than has happened thus far. Taking examples of innovative ideas from other countries and having an open mind to what other countries could teach us were hallmarks of Labour in opposition, but not in Government. The Education Green Paper in 1997 contained very few references to other countries, except in the appendix where the international achievement league tables showed their success. Initiatives such as the Dutch reforms of special needs education, or the Pacific Rim's current attempts to blend 'traditional' and 'modern' practice hold interesting insights.

Thirdly, the balance between 'pressure' and 'support' for schools is still not quite right. Pressure comes from the publication of results, the effects of parental choice in the educational marketplace, the general political climate in which education is situated and the 'bidding culture' in which schools compete for

funds. It comes particularly, though, from OFSTED, which under its present leadership clearly sees its role more as the champion of consumer rights against producer interests than as a support to, or a force for improvement of, teaching standards.

Support comes in a more fragmented fashion from higher education establishments, local education authorities, educational consultants (often of dubious quality), and, increasingly, the private sector. Yet there is no guarantee that those schools most in need of support are able to choose what they need. More generally, there has been only a partial dissemination of knowledge about 'what works' in schools. The Literacy and Numeracy Strategies have achieved this in primary schools but there has been little corresponding 'roll out' of appropriate best practice to key players in the secondary sector. This is particularly true in relation to local education authorities who are meant to be pivotal agents of school improvement, and the middle management of secondary schools. Knowledge-centres with an awareness of best practice do exist which these groups could draw on. It would be a great pity if schools and teachers were denied access to them because they didn't know they existed.

Fourthly, as David Blunkett's essay recognises, there is the core issue of the teaching profession itself and how it can be modernised. Few would doubt that teaching has been a poorly resourced profession, with variable performance from its members and an absence of financial, and indeed other, rewards for excellence. There has been little of the managerial excellence, responsiveness to consumer needs and willingness to innovate that marks out the best private sector businesses and aspects of the public sector. Linking teachers' salaries to demonstrated competencies and to the progress made by their pupils sensibly focuses on the core elements of teachers' professional lives.

Though this policy on pay is sensible, many teachers do not see it that way. One reason for this is probably their disillusionment with the government's unwise media 'spinning' which has been concerned less with teachers and their views than with courting the public, not least sections of the public who are suspicious of state education. This has sometimes trivialised complex issues. Nor has the focus on the 'trailing edge' of teachers and schools helped (typified by the 'list of shame' that swiftly followed the general election), as it has diverted attention from the real British educational weakness, which is that the average teacher is not good enough. Policies are sometime not portrayed in a 'teacher-friendly' manner where they could be. For example, performance related pay should have been portrayed as extending to all schools what good schools already did. Instead it was presented with the national political audience in mind, which is why it was sold as being 'new'. In short, teachers have been portrayed as part of the problem, when of course policies dictate that they are also the solution.

Overall, there is much to admire in the Government's educational policies. The

commitment with which David Blunkett and other ministers espouse their crusade are obvious. Yet there is a danger that the merits of their policies will not be appreciated by the very professionals who have to implement them. There has clearly been something of a breakdown in trust between British society and its teachers. As the phase of policy initiation moves to policy delivery it is vital to engage with teachers and understand their concerns. We need to find the right emotional tone in which to speak to the profession. The trust between government and teachers needs rebuilding.



## A modernised NHS

Frank Dobson

At the mid-term of the Parliament there are still many things in the NHS that need to be improved, still much more to do. We have made a start – Health Service funding will be increased by £21 billion over the next 3 years; waiting lists are now 60,000 lower than when we were elected; the number of NHS doctors has gone up by 2000 in our first year of office; and nurses have received the highest pay award in a decade. But it's only a start.

### A new vision

It was Labour's vision of health care for all – quality and equality – that led to the foundation of the NHS. And it is still working: most people in most parts of the country most of the time get top quality treatment and care. But the service is often not as prompt as it should be, sometimes it's not as good as it should be and in some parts of the country some services aren't available at all. That's not good enough. Everybody in every part of the country should be secure in the knowledge that if they or one of their family fall ill the NHS will be what they need, where and when they need it: a genuine one-nation health service, combining social justice and economic efficiency.

We have a thoroughly worked out programme for delivering this vision. First, clear national standards through the National Institute for Clinical Excellence (NICE) and National Service Frameworks. Second, strong local incentives for innovation through clinical governance in hospitals, and devolution of power and resources to Primary Care Groups and Trusts. Third, helped by surveys of patients' own views, transparent external monitoring – of efficiency, quality, and access, along with a Commission for Health Improvement to see these standards are delivered. In these ways we are combining national standards for care with local flexibility. This really is a third way beyond old-style command and control and the pseudo market introduced by our predecessors.

Our vision includes long term action to reduce health inequalities – though these will take a generation to show up in statistics. And we want people to have more information and power over their own health.

This requires 10 to 20 years of concerted action: child poverty eliminated, smoking down, healthy lifestyles more widespread. To achieve this, Health Authorities will draw up and implement health improvement programmes to identify and meet the health and health care needs of the people in their area. Over the next decade, we hope to see 300,000 lives saved.



Our primary care services based on GPs are some of the most successful and popular aspects of the NHS; and our list-based system of local personal care is the envy of other countries. Getting it right in primary care means better health outcomes for each patient, best use of the resources available and better job satisfaction for those who work in the service. Getting it wrong in primary care perpetuates the health inequalities and unfair access to health care that we saw under the last Government. So primary care remains at the heart of the new NHS.

Our decision to replace the two-tier market system is not a threat to traditional general practice – it builds on its strengths. Handing so much power to Primary Care Groups (PCGs) has been both a silent revolution and a massive vote of confidence in GPs. In turn, these changes have the support of grassroots GPs and nurses. The proof of that is to be seen in every town and city of this country with GPs and nurses now running the 481 new PCGs. And from next April some of them will go a step further and become Primary Care Trusts.

The role of Government in this is to create the opportunities for the professionals to make use of new technologies and new ways of working. We have therefore established an £89m modernisation fund to finance around 1,000 major improvements to clinical premises, and are investing over £100m this year to improve the information management and technology within primary care. This will connect all practices to the NHS Net and enable them to use the most modern technology available to manage patient care. It is also why we are developing NHS Direct, the 24 hour nurse helpline. Because NHS Direct is a new service – not a substitute for an existing one – it a bonus for patients without being a threat to GPs. It will never replace face to face contact, but it will help to make sure people get advice and help around the clock and the right level of care at the right time. It responds directly to the concerns of the 60,000 patients questioned in the first national GP patient survey. And if we get the design right, it will free up the time of GPs to deal with the cases that most need them. NHS Direct now covers over 20 million people

## A new approach to PFI

We are also modernising hospitals. The role of PFI – and the radically different approach we have adopted to it from our predecessors – is critical here. The first difference is that they only talked about it, while we have actually made it work. The law has been clarified and the accounting guidance updated. The previous Government spent £30 million on advice from lawyers and accountants but they did not build a single PFI hospital. We sorted out which schemes needed to go ahead and which didn't. In just two years 37 new hospitals worth over £3 billion have got the green light – the biggest hospital building programme in the history of the NHS.

The second defining difference is that our predecessors took a dogmatic view about what had to be included in a PFI deal. By contrast we are allowing local flexibility so that, for example, in future there will be no requirement to transfer catering, cleaning and portering staff. We are protecting the interests of staff who are transferred and their pension rights, and we have ended the secrecy by publishing full information on PFI contracts.

A third difference is that the previous Government wanted to privatise clinical services (and now in Opposition still does). In contrast we said in our manifesto that "Labour is opposed to the privatisation of clinical services", and we still are. Not for sentimental reasons, because patients want the NHS as a care provider, but for hard economic reasons. The fact is that the NHS is a more efficient provider of healthcare than the private health sector. It is the private health sector that is in crisis: their costs are spiralling, insurance premiums rocketing, subscriptions falling; and their hospitals are half empty.

### **Addressing the critics**

That some criticisms of PFI are repeated frequently does not make them true. These concerns can and should be rebutted. For instance, some critics seem to think that there is something novel about anyone making money out of building hospitals. But there's nothing new about that. Who do the critics think has been building hospitals before PFI? Charities or volunteers? Of course not – they were built by the same profit-making private construction companies who are now involved in PFI. The only difference is that in the old days the companies could augment their profits by cost-overruns, time delays, and cutting corners. Now, under PFI, they can only make their profits by sticking to cost, delivering on time, and properly maintaining the buildings. The main thing we have privatised under PFI is the cost overruns – under the old system the taxpayers had to pay for them, but under PFI the private sector pick up the tab. It is worth remembering the record of the old method of public procurement of hospitals that the critics of PFI want to return to. With typical cost-overruns of anything up to 20 per cent, the old public sector approach meant the NHS got 5 hospitals for the price of 6. PFI means hospitals being built on time and to cost. Another advantage is that PFI means hospitals will be properly maintained and corners won't be cut in their design. If they are, it is the private sector who will be responsible, because the contractor has to maintain the buildings and plant at their expense. This gives them every incentive to do things properly from the start.

Another point that the critics do not register is that PFI means that the NHS is no longer at the mercy of the stop-go economic cycle for equipment replacement and hospital building. PFI spreads the capital costs over a number of years so the NHS is able to get a steady stream of new hospitals. This is just the same as getting a mortgage to buy a house. And just like a mortgage, the NHS will own PFI hospitals at the end of the contract when this is best for the NHS.



Some say PFI cuts bed numbers – it doesn't. 100,000 NHS beds were closed in the decade before the first PFI hospital was conceived. Under the procedures we have put in place a decision on the number of beds needed is made before choosing between the PFI or public sector procurement route. Nor is PFI inflexible if changes are needed – for example we are set to add over 100 beds to the current PFI plans at Norfolk and Norwich hospital. In any case I have set up a national inquiry into how many beds and what sort of beds the NHS will require. Future hospitals, whether PFI or non-PFI, will be judged against the criteria we develop and have to meet the needs of their area.

Another often voiced concern is that, because Government borrows more cheaply than the private sector, PFI will automatically be more expensive. This ignores altogether the offsetting savings that can come from better design, no cost overruns, and more efficient maintenance. Some critics have produced analyses which seek to damn PFI by comparing simply the construction cost of a public capital hospital with a 30 year PFI contract for a similar hospital. This is deliberate deception because it conveniently ignores the fact that the PFI contract includes not just the cost of construction, but 30 years' maintenance and other services. Where PFI offers better value for money we use it. The National Audit Office is there to verify that, and is doing so. Where PFI isn't best value we say so, and use public capital instead. To give us this choice, public capital will increase by 50 per cent in real terms over the next 3 years. Opponents of PFI rule it out on principle, regardless of the facts. We take a pragmatic view – what counts is what works. And, of course, the more that new hospitals are built using the PFI approach the more public capital is left available for improvements in the buildings, plant and equipment of existing hospitals.

### **A modernised NHS**

None of this can happen without the effort and innovation of NHS staff. As a knowledge-based service, the NHS needs the skills and teamwork of health professionals. Clinical excellence means new systems, not just of clinical governance, but of lifelong learning. Clinicians must master the latest and most effective techniques, and the latest developments from the pharmaceutical industry. Coupled with higher patient expectations, keeping up with the ever-quicken pace of change is more and more demanding. I want to make sure that the people in the NHS have up to date and authoritative guidance, training and advice. In turn, they must be willing to change and open to new ideas.

At this midpoint of the Parliament, two years into our reform programme, we know the challenges. But we are clear about the vision. Those who have never supported the NHS want to see it fail to modernise: fail to keep pace with the expectations of the British people, and fail to survive as a one-nation service. We can't allow that to happen. The choice is not a new NHS or the current NHS. It is the new NHS or no NHS.



### Chris Ham

The first two years of the Blair Government have focused on the development of policies for the future of the NHS. The next two years and beyond will be concerned with the implementation of these policies and the delivery of results for patients and the public. The vision set out by Frank Dobson is of a modernised NHS that is accessible and convenient and achieves consistently high standards across the country. Implementation of this vision is being supported by the allocation of additional funds for the NHS.

Equally important, the Government is driving forward its objectives through an eclectic mix of policy instruments encompassing central direction in some areas, the empowerment of GPs and nurses in others, and the introduction of new forms of inspection and regulation. In the process, Ministers have not been afraid to adapt the policies of the Major and Thatcher Governments, taking the view that 'what counts is what works' and being unashamedly pragmatic in their commitment to pull the NHS up by its bootstraps. The unanswered question is whether the policy cocktail mixed by the Blair Government can be made to work for patients and the public, or whether this is the latest in a long line of reforms that promises much but delivers far less.

Evidence from the first two years indicates the scale of the challenge that lies ahead. Taking the most concrete pledge made by Labour when in Opposition, the number of people waiting for hospital inpatient treatment has fallen towards the target of 100,000 set by Tony Blair but only as a result of the earmarking of additional resources and a focused management effort. As this has happened, the length of time people wait for an outpatient appointment has risen, and the NHS has struggled to meet the continuing pressures of emergency hospital admissions. The extra resources allocated following the comprehensive spending review should enable further progress to be made in tackling waiting lists but modernising the NHS demands more than just additional money, welcome as this is.

It is here that the Government's commitment to increase access and convenience comes into play. In the case of primary care, the introduction of NHS Direct, a nurse-led telephone helpline, and of walk-in primary care centres throw down the gauntlet to GPs who have enjoyed a monopoly as the first point of contact for patients throughout the history of the NHS. Not surprisingly, GPs are emerging as the government's most vocal critics, feeling threatened by the development of new models of care, and arguing that patients would be served better if the resources directed to these models were targeted at existing services.

Similar tensions are evident in hospitals where pilot projects have been established to replace waiting lists with booking systems. In these projects, patients are given a date for their operation when they see the specialist in the hospital outpatient department, thereby reducing the uncertainty and anxiety of waiting for treatment. The risk for some hospital doctors in these arrangements is of losing control over the scheduling of their work and having to pool patients with other colleagues instead of holding their own list. More fundamentally, increasing access and convenience to hospital treatment challenges the culture that has equated lengthy waiting lists and waiting times with the popularity of specialists and the esteem in which they are held.

To make these points is to underline how complex it will be to implement what appear to be relatively simple changes. More than any other public service, the NHS is dominated by the professionals who provide care, and to succeed the modernisation agenda has to alter the behaviour and attitude of these professionals and convince them that change is desirable. To be fair, doctors and nurses have often been a source of considerable innovation, but the ability of the medical profession and its trade union, the BMA, to delay and frustrate health service reforms should never be underestimated. For policy makers, the challenge is to find ways of overcoming resistance to change while at the same time creating a climate in which further innovation is encouraged.

How likely is it then that this Government's policy mix will succeed where others have failed? The answer depends in large part on the theory of change underlying the approach that has been adopted. In this respect, there is a stark contrast between the apparent simplicity of Margaret Thatcher's internal market, with its belief that competition was the most effective route to improve performance, and the eclecticism of the Blair project in health policy with its use of centralisation, professional empowerment, inspection and regulation. While the policies currently being pursued offer a wider range of opportunities to implement change than the internal market, and have generally been supported both from within the NHS and outside, they may still be insufficient.

This is because they give inadequate attention to the need to build capacity within the NHS to introduce the new ways of working on which the modernisation agenda depends. In this context, capacity building includes strengthening management at all levels, investing in staff training and development, and understanding that in the long run real change comes less from headline catching initiatives (of which there have been many in the NHS) than from the creation of organisations containing the people with the skills and competencies to improve services to patients. The dilemma here is that the Government is impatient to see results and the time needed to build capacity on which to deliver fundamental reforms may not exist, despite claims to the contrary.



are on the way out. We're modernising procedures in the House of Commons, so that even more people from all walks of society will consider politics as a career. Before the election, people said that the new Labour Government would become bogged down by its constitutional agenda. Like so much that they said then, it's proved to be utterly false. The constitutional changes are important, but they're not what most people put us into government to do, and we haven't been distracted from the real agenda: education, health, welfare, crime and transport.

To help us deliver real change on those issues, there have been important innovations in the way government goes about its business. In the past, different departments tended to plough their own furrows. This is the first truly 'joined-up' government. The Social Exclusion Unit and the Performance and Innovation Unit are just two examples of that. The radical three-year Comprehensive Spending Review has allowed departments to get on with the job, without the distraction of annual battles over money. And the Chief Secretary to the Treasury now makes sure that all departments meet exacting performance targets year on year.

This year's Annual Report on the Government's record made clear how much progress has already been made and acknowledged honestly what still needs to be done. The essays in this Fabian pamphlet go further. They explain *why* we're doing what we're doing. They set out the values and principles that underlie all we do. In short, we want to create a country where fairness and opportunity go hand in hand, where economic efficiency is married to social justice. That's the new Labour message.

We welcome an intelligent debate about our principles and policies, but with an ineffective and opportunistic opposition we don't always get one. So I welcome the fact that ministers' views are assessed here by independent outsiders. I may not agree with everything they say, but if it means we can have a serious and principled debate about how we're doing then that has to be healthy.

New Labour *is* working. There is a lot more to do. But we are on the right course. We are determined to deliver our programme of modernisation and reform – applying our values to improve Britain.



## **Towards an integrated transport system**

John Prescott

**Transport is now high on everyone's agenda. We need an efficient transport system to support a prosperous economy, to counter social exclusion and to maintain our quality of life. The challenge is for us to meet the increase in travel this will bring, without putting undue pressure on our road, rail and aviation infrastructure.**

When we came into Government two years ago, after 18 years of deregulation, competition and privatisation, we inherited a huge investment backlog, ever increasing traffic jams, crumbling roads and 20 years of neglect of public transport. I know people are impatient for change. But they also realise you can't renew and modernise the transport system we inherited overnight. What the public does have a right to expect is that we have the right strategy to solve these problems and that we are energetically putting it into operation. Our Transport White Paper, the first in twenty years, sets out our plans to build a modern, integrated transport system for this country

### **Our agenda**

Some have tried to narrow the debate simply to the motorist. I don't believe people characterise themselves so narrowly. They are not just motorists, but also public transport users, workers, family members and citizens who want a better quality of life. We are not anti-motorist; we are anti-congestion. The real anti-motorist policy would be to continue on as before. Our agenda is to improve and expand public transport to give people more choice; to improve traffic management and give a higher priority to road maintenance; to create a more integrated transport system, to get the most out of the assets we have got; and to work in partnership with others to galvanise the skill and effort we need to reach our common goals.

Some of our plans will take some years to come fully to fruition. But we are already making a start, with the foundations for long-term success.

### **Tackling congestion**

There is unquestionably a problem with our road system. The fundamental dilemma faced by modern societies is that the motorcar has given many people freedom and mobility, and will continue to do so, yet we cannot continue to cater for the growth in car use. Traffic has grown enormously in the past thirty years: if we carry on as we have been, it is set to grow by over a third in the next twenty years with 6 million more cars on the road. Traffic jams cost money – £20 billion a year according to the CBI. They pollute the air, they damage our health, and they detract from the very comfort and convenience of driving.

We cannot possibly build our way out of congestion. When the last Government came in, there were 70 cars per mile of road and when they left office there were 100 cars per mile of road despite £70 billion being spent on roads. The overwhelming majority of motorists would accept that the only realistic way of reducing jams is enabling more people to make more journeys without using their cars. So the key to success is widening choice: improving public transport so it provides an attractive and reliable alternative way of getting people where they want. Increasing transport choice will help motorists. The more car owners choose to make some journeys by bus, or train or by cycle or on foot, the better it is for those who want or need to keep using their car.

Given that seventy per cent of journeys are less than 5 miles we need to focus on local solutions. This is why we are promoting Local Transport Plans which will seek to improve all forms of local transport; from walking and cycling to Bus Quality Partnerships. I intend to announce my decisions on Local Transport Plans before the end of the year. We have set aside an extra £700m to help fund these plans from local councils, with provision rising to over £1 billion in 2001-2002.

Local initiatives around Britain have shown progress can be made. In 40 towns and cities across the country Quality Partnerships have raised standards and attracted more passengers – typically, between 10–20 per cent more, with bus priority measures as high as 40 per cent. In Manchester an estimated 3 million commuters have been persuaded on to the Metrolink supertram from their cars, while over 40 bus operators, the Metrolink and North West Trains are co-ordinating their ticketing, timetabling and passenger information. This is the first of a number of Centres of Excellence, which will act as beacons from which we can all learn. In Leeds, the guided busway has achieved an 85 per cent growth in patronage, and the car-sharing lane has helped tackle congestion. In Edinburgh, the Greenways project cut bus journey times by up to 25 per cent and generated 250,000 extra trips in its first six months, boosting business in the city's shops. And we are finding that our new rural bus services are attracting up to 50 per cent more passengers.

Addressing congestion will require new sources of income for investment. This is why we are enabling councils, where they want them, to impose road user charges or workplace parking levies. Road user charging can be targeted at the most congested areas to encourage the use of alternatives to the car and provide the means to pay for them. Recent polls have shown a majority of Londoners, motorists and 75 per cent of London businesses will accept congestion charging provided the revenue is ploughed back into transport. This is exactly what we have guaranteed. The London Bill gives the Mayor and London Boroughs the power to keep 100 per cent of the net revenues for at least ten years from implementation to spend on improving local transport (on any schemes starting in the first ten years of the GLA). All local authorities in England and Wales are getting the same facility.

No one should pretend that it will be easy in the next decade to have fewer car journeys than today. Last year, traffic rose more slowly than the year before – but it still rose. There will certainly be more cars in future. But if we use them more wisely we can limit the increase, reducing absolute traffic levels where it is most needed. That is what I mean by people using their cars less, and public transport more.

### **Integrated transport, integrated delivery**

An integrated transport policy means integration between different types of transport. In the transport system I envisage in ten years' time, bus and rail services will connect with each other and with car journeys. That means timetables, ticketing, information and physical interchange must be linked. For example, the new concordat between the Highways Agency and Railtrack is unlocking new road-rail links and park and ride facilities. On public transport we want to get as near as possible to a door-to-door seamless journey, with one ticket which you can buy in advance, and connections you can rely on. Smart cards and season tickets for use on different modes will be more common. More park and ride facilities will mean commuters and shoppers can combine the local flexibility of the car with convenience of the bus and train.

Providing information to travellers is a crucial part of this. There will be more 'real time' information at the bus stop. Next year we will introduce a new national public information system for all bus and rail services, on the end of a phone, and on the Internet. Electronic information will also help inform motorists and improve traffic flows.

Transport must also be integrated with the land use planning system at national, regional and local levels. Poor planning can generate unnecessary traffic; while effective planning can make sure people have easy access to the services they want so they don't have to travel miles to the nearest shop, post office or to get to work. Home delivery and e-commerce can also help. We also need to integrate transport with other with other government policies: merging the old Departments of Environment and Transport – to create a department for the quality of life – was a major step forward in this regard. We are now applying common thinking on transport to spatial planning, local government and environmental policy, as we must to education, health care and wealth creation. Finally, better integration means working in partnership, getting the best out of public and private provision, co-operating with local authorities, business, the new regional bodies, the voluntary sector and transport users.

The transport system also includes other modes: shipping, aviation, canals, walking and cycling all have an important part to play. Making it easier to walk and cycle will be key elements of Local Transport Plans. The national cycle network will be completed by 2005, and is already ahead of schedule. Aviation continues to grow apace and we have successfully encouraged regional airports such as Manchester and the northern airports. Stansted, while offering more



direct services for people in the regions, is also taking some of the strain from the south east. And we are putting in place direct rail links to all London's airports.

Meanwhile in the freight transport field we are seeing a dramatic revival in the use of rail. More freight is also being carried by air and water. Yet we have to recognise that the lorry will still dominate freight movement. We want our hauliers to be competitive and we are examining this in the Road Haulage Forum. We need a long-term pact with the lorry. Cleaner vehicles and less intrusion in residential areas, complemented by priority routes and better use of logistics. Hauliers, of course, would be among the big winners from reduced congestion.

## **Investment**

An integrated strategy means overcoming the backlog of under-investment, both in public transport and road maintenance. We are putting in half a billion pounds more for London Underground – making possible £2 billion of core investment over four years. And we have been developing new models of Public-Private Partnership (PPP). This has allowed us to rescue the fast Rail Link to the Channel Tunnel, permitting new continental rail services and increasing commuter capacity. Our PPP for the London Underground will bring in £7 billion for modernisation. As Public Interest Companies these will provide new forms of finance, and new forms of accountability.

A PPP is also our preferred option for the National Air Traffic Services (NATS). Our air traffic controllers have done a lot to keep delays under control, reorganising some their busiest airspace in order to reduce delays and increase safety. They also have a continuing programme to provide additional airspace. But we need to see additional investment in NATS of about 1 billion pounds over the next 10 years in order to cope with demand. A public-private partnership would separate out safety control from provision. It would also enable long term investment in technology which is the key to coping safely with more flights as well as greater certainty and stability. We have also given a new lease of life to British Waterways, using public-private partnerships to restructure its financing and enable it to develop our canal network for leisure and freight.

By restoring confidence in the future of public transport we are attracting more private investment than ever before. Investment in buses is 80 per cent higher five years ago, and is now worth £270 million a year. Bus operators have been told that if they invest in comfortable high quality new buses, councils can help them cut journey times and improve punctuality. That means effective bus lanes in our cities and towns. In this way we can tilt the balance to make the bus more often a first choice rather than a last resort. Similarly, private rail investment is up by a third in just two years. The train companies have agreed to renew half the nation's rolling stock by 2002, and Railtrack must match this by increasing the capacity of the network. By establishing the shadow Strategic

Rail Authority and appointing a new Rail Regulator, we are making possible the development of a strategic plan for the rail network and the renegotiation of rail franchises to put the passenger first.

### **A truly public service**

Improving public transport is not only better for the economy and better for mobility; it is also a matter of social justice. Without public transport, the one in three households with no access to a car are cut off from services and excluded from society – this is especially true in rural areas. But transport itself must also be accessible. Some people will always require specially designed vehicles of their own, helped for example through the Motability scheme and orange badge parking scheme. We have also proposed the option of exempting disabled drivers from congestion charging and we are requiring that all new trains, buses, and taxis are accessible to disabled people over the next couple of years. We have also pledged to guarantee every pensioner at least half price bus fares – directly benefiting 3 million pensioners.

I believe we are on the verge of a renaissance in public transport. This is no longer an industry in decline. There are 1000 more rail services each day, a massive increase in secure park and ride facilities, 16 new train stations, a 14 per cent increase in rail passengers, and rail freight has increased by a fifth. There are 1,500 additional services in our country areas. Bus passengers increased last year in England for virtually the first time in twenty years. It's going to be a long haul. But the modern transport system we are building will be one in which congestion is tackled and choice increased for the benefit of motorists and the whole country. Our transport agenda will not just take us into the next election, it will take this country well into the next century. It is beginning to deliver improvements now, and to set the approach that will continue to deliver better transport with more choice for all, well into the 21st century.

### Phil Goodwin

Transport has become a frontline political issue. Amidst the noise a key claim being made is that there is now widespread public dissatisfaction with the Government's transport policies – even a 'backlash' against it. But those making this claim – including both politicians and commentators in the media – do not always make clear if this is dissatisfaction with what the Government has done or proposes to do; or with its failure to do it fast enough. The transport debate has one point of general agreement – the need for more money for investment in public transport. But this requirement is not always attached to a consistent or strategic logic.

I do not believe that we are seeing a reconstruction of the traditional 'road building alliance' – motorists, lorry operators and businesses, led by the construction industry. There is unquestionably opposition to the Government's plans. But this is not remotely close to producing any sort of viable alternative strategy which could challenge or head in a different direction from that set out in the Transport White Paper. Imagine if there were a new anti-Government transport coalition. *What would it campaign for?*

We need to remember why the 1989 roads programme, 'Roads to Prosperity', as the heart of the previous Government's transport strategy, collapsed. It was because it did not – and could not – work. That's what the Conservative Government's 'great transport debate' was about: even the 'largest roads programme since the Romans' could not keep pace with traffic growth. At best, it could only slow down the pace at which congestion got worse.

The need for demand management, traffic reduction, a reborn emphasis on public transport and walking and cycling, and on planning to reduce the volume of unnecessary travel, arose logically and directly from this recognition.

What we are now starting to see is the practical problems of how to make such a historic turn in the basic assumptions of transport planning.

First, we must recognise that as there cannot be enough road capacity for unrestricted use by everybody, improving conditions will require priority access – pedestrianisation, bus lanes, lorry lanes, etc. This has – it always had – an implication which is only now becoming apparent. It is virtually inevitable that there must be a degree of dissension among the relative claimants. This is not a breakdown of the consensus. It is the working out of an inevitable feature of that consensus, namely the contest for scarce road space. This raises questions of democratic processes and political priorities – exactly what we are now seeing in concrete form.



Second, we have, and will continue to have, a largely commercial transport industry, to carry out partly non-commercial objectives, including social and environmental ones. There is no reason in principle why this should be impossible, but we can expect some divergence of approach, which will need to be resolved by very clever incentives. A favourable outcome is possible, because both sides have a lot to gain, but it may not happen automatically or smoothly.

Third, charging motorists (and indeed all transport users) prices which cover the costs of the congestion and environmental damage they impose on others, only makes sense politically if it is initiated and controlled at local authority level. And it will only work if the revenues are kept locally, to be used for public transport, for street quality, for maintenance standards and wider civic renewal. The amounts of money involved – potentially – are enormous. They are quite enough to solve the financial crisis of the cities and buy urban quality at a level that has not recently been part of the British way. But it is uncharted territory, and caution is not surprising.

There is, though, universal agreement that more money is needed. The Government has promised a new funding mechanism (congestion charging) which is the only conceivable one which could produce the funds required. And John Prescott has secured the most famous victory of the White Paper, the acceptance by the Treasury of the principle of hypothecation. We will either solve these problems together, or not at all.

The evidence suggests that there is public support for traffic reduction measures generally, and road user charges in particular, but it is contingent. People say – well, yes, but only if alternatives are improved first. *First*. Now in an extreme form that is unworkable: it is one of those impossible conditions that are just a tactful way of saying no. But the basic idea is absolutely sound: the time scale of implementation of sticks and carrots must be connected – probably leapfrogging rather than in a strict sequence or absolutely simultaneous, but consciously and deliberately co-ordinated. It is an example of the way in which the new policy agenda requires an emphasis on phasing and sequence, rather than end state, and therefore requires analytical procedures (sadly undervalued in the otherwise highly advanced techniques of traffic forecasting) which can give insights on evolution over time.

So my interpretation of the political moment is that we have a weak breakdown of goodwill, but not a strong breakdown of the underlying consensus for the strategy as a whole, and not a backlash in any sense which is connected to a serious alternative. It is the irritation of impatience, not the hostility of opposition. It would be a complete misjudgement to use the appetite for results, faster, as an excuse for doing less, slower.

## Freedom from fear: building a safer Britain

Jack Straw

Tackling crime is at the heart of our plans to build a better society. Crime damages individuals and disfigures communities. It hits everyone hard, but bears down the worst on the poorest and the weakest. The Government has recognised that the old arguments about crime don't work any longer. The old left saw the causes of crime as the main issue: deal with unemployment, bad housing, poverty, poor education and lack of opportunity, they said, and crime would inevitably fall. The new right saw individuals as the central issue and tended to ignore the environment in which crime breeds. But neither explanation was complete in itself. Because neither was the full explanation for crime, so neither could offer the full means to tackle it. When we said we needed to be 'tough on crime, and tough on the causes of crime', we meant it.

### The Government's strategy

After two years in Government we can set out what this approach involves in practice. Being tough on crime means:

- sending signals to criminals that a return to crime is not an option; that the purpose of our criminal justice system is to catch and punish offenders not to make excuses for them
- far more rigorous enforcement of community sentences
- zero tolerance of anti-social behaviour. We have introduced anti-social behaviour orders for nuisance neighbours and new offences of racial violence and harassment
- quicker and more effective punishment for persistent young offenders.

And being tough on the causes of crime means:

- strengthening communities through welfare to work, supporting families, better housing policies, improved education, encouragement of volunteering
- investing in safer communities. We are putting £400 million over three years to fund evidence-led crime reduction initiatives including the biggest ever commitment to CCTV, over £50 million for burglary prevention projects and over £30 million for target policing schemes
- an end to the vicious circle of drug related crime. We have already invested an extra £76 million in prison based drug treatment programmes and intro-



duced new drug testing and treatment orders for offenders on community sentences. But we need to do more to break the links between hard drug use and crime

- making prison work by investing over £200 million in preventing re-offending, improving literacy and employability among prisoners, getting drugs out of prison through mandatory drug testing for prisoners – and making sure that visitors who bring drugs in lose their rights to visit.

## **A long-term agenda**

The early indications of the effectiveness of this strategy are promising. Recorded crime is lower than it was when we came to office. The most recent set of national crime statistics, published in October last year, show the biggest fall in crime for five years. And, for the first time ever, the British Crime Survey showed that unreported victimisation – and fear of crime – was on the way down too.

These statistics show that rising crime is not inevitable, it can be reversed. Our greatest task, not just for the coming two or three years, but for the next decade and beyond, is to turn recent short term gains into a long term reduction in crime. That means focusing on the long term trend and not being knocked off course by short term fluctuations caused by demographic or economic factors. Every decision we make, every pound we spend, must be with that overriding priority in mind – to reverse the long run growth of crime.

Meeting that challenge will require a clear focus on outcomes not inputs, and on clear and measurable targets at both a national and local level. That means focusing not on how many police officers a chief constable may choose to employ, but on the outcomes which this creates; on whether crime goes down – or up; and on whether people feel more, or less, safe. It also demands a recognition that tackling crime and disorder is a duty which involves all local agencies working in partnership – not just the police. To galvanise the efforts of those working at a local level – local councils, schools, hospitals, businesses and voluntary groups – we have now got more than 430 statutory partnerships up and running across England and Wales, delivering local strategies to reduce crime.

## **Young offenders**

Most adult criminals learn their trade as teenagers. Yet if there was one area, above all others, that symbolised what was wrong with the criminal justice system when we came into office, it was how we dealt with young offenders. We had to stop treating young offenders as spectators in the criminal justice process – talking over, round, or at them, but never to them. We had to deal with the endless delays which stretched the gap between offence and court appearance to the point where the young offenders could scarcely remember the



crime itself, never mind feel guilt or remorse for it. We had to focus on what it is that makes young people offend in the first place and put the prevention of further offending at the heart of our strategy.

We are now well on the way to delivering on the key pledge we made before the election to halve the time it takes to deal with persistent young offenders. By the end of last year average delays were already down from 142 days to 106 days and they are still dropping fast.

### **Drug related crime**

Drug related crime places another enormous burden on our system of justice. Offenders who are dependent on hard drugs like heroin or crack cocaine spend thousands, sometimes tens of thousands a year on drugs creating epidemics of crime to fund their habit, which in turn can blight neighbourhoods for years. Thirty per cent of arrestees say that they are currently addicted to one or more drugs, yet only one in five say they have ever received treatment for their addiction.

We must break this vicious circle of drug related crime. There is more, in particular, that we could be doing to catch drug-addicted offenders when they first come into the system – for instance taking rapid action down in the custody suite, just after arrest, when they are coming to terms with the consequences of their addiction. We already know from pioneering work in Salford, the Metropolitan Police and elsewhere that arrest referral schemes based in local police stations can get drug misusing offenders into treatment and prevent very significant amounts of crime. Arrest referral schemes are not an alternative to charge and punishment, they are an essential addition to the process of justice, a means by which society can say to the offender: prove to us that you are committed to a new life, to going straight. We must extend their coverage. Two hundred pro-active, face-to-face arrest referral schemes involving on-site and on call drugs workers could have a huge impact on drug-related offending in England and Wales. We are making available £20 million over the next three years for new arrest referral workers and the provision of additional treatment to make sure that we reach our target of providing coverage for all custody suites by 2002.

### **Modernising the police force**

There has been a quiet revolution taking place in the public sector in the past 15 years and this is bound to include the police as much as any other public service. No change can never be an option. The Government is putting substantial extra resources into the police service but we should also be challenging the way we do things. That is at the heart of the new "Best Value" regime – the challenge of raising our performance to the level of the best, of comparing ourselves with our peers and, most importantly, of consulting with the public.

Change can be a painful process – there will always be those who want to stick with the old ways, no matter how outdated or ineffective they might be. That's frustrating for the public – and doubly frustrating for the overwhelming majority of staff who simply want to do a better job. But many forces are already showing what can be achieved. The Met, for example, have managed to reduce sickness absence by 27 per cent over the past year – the equivalent of 500 extra officers available for duty each day. In the West Midlands approximately 700 officers have been put back on the beat by rationalising the work of specialist squads. I have set a target for every force of achieving at least 2 per cent efficiency savings, I hope that many will do even better.

We stand on the threshold of some of the most exciting changes in police technology in decades. Take breakthroughs in DNA technology. Work by the Forensic Science Service means that offenders can be matched to scenes of crime through microscopic samples of no more than two or three human cells – sometimes years after the event. Every week around 600 new matches are made on the National DNA Database. And every week some of the most serious offenders in Britain, including murderers and rapists, are brought to justice as a result. Working with the Forensic Science Service we are making available over £1 million to enable them, in partnership with the police, to explore the full potential of DNA and other forensic techniques for tackling crime hot spots and prolific offenders.

But perhaps the most significant new project we have on the horizon is the Public Safety Radio Communications Project (PSRCP) which will revolutionise the way in which police officers communicate with each other and with their control rooms. For the first time, police out on the beat will have the information they need – crime maps, vehicle license data, photographs – where they need it, when they need it. Frontline officers will no longer have to waste hours back in the police stations retrieving data and the new system will also make possible the amalgamation of police, fire and ambulance control rooms – saving money and saving lives.

### **A safer Britain**

Crime and criminal justice matter. Nothing can undermine communities more than disorder, fear and lawlessness. Where there is less crime, there is more opportunity for everyone to enjoy a better life for themselves and their families. If we can reduce crime we can redirect the resources that we spend on making hospitals secure or repairing vandalised neighbourhoods towards more productive outcomes. Less money on broken windows and mortice locks – more money for teachers and books. We have not yet won the battle against rising crime, but we have built the foundations for a safer Britain.



### Charles Pollard

The Government reform programme is thoughtful and is based on hard evidence of what works – in contrast to “flavour of the month” quick fixes which politicians often find more attractive. This is precisely why the new agenda is broadly popular with those working in criminal justice agencies. But the Government’s reforms are by their very nature strategies for the medium term, and they require major organisational and cultural change throughout the whole criminal justice system if the full potential gains are to be achieved.

Many commentators do not understand just how radical, broad and deep the reforms really are. At a fundamental level they are based upon a new, clear philosophy around the purpose, aims and objectives of the criminal justice system, which for the first time has been signed up to by not just the Home Secretary but also by the Lord Chancellor and the Attorney General. This is in sharp contrast to the past when there was little clarity and constant turf wars took place at ministerial and departmental level, rendering effective change almost impossible.

The reforms are also grounded in the real concerns and needs of local communities. The new statutory requirement for Local Authorities to take ownership of community safety – and for all agencies to have to work together with them to reduce crime and disorder in consultation with local communities – is a huge and very positive change. This links in closely with the recognition that what used to be regarded as “low level” and therefore unimportant crime – for example graffiti, vandalism and nuisance – is in fact not only very significant to the quality of life of local people but also a major generator of the fear of crime and a potential route into more serious criminality. The new Anti-social Behaviour Orders and offences of Racial Violence and Harassment are particularly welcome in this context.

The new youth crime policies are equally significant and should soon make Britain world leaders in this field. Every time we stop young people from offending or re-offending – or from progressing to more frequent or serious offending – then we are not just reducing crime now or next week or next month, but we are investing in sustained long term reductions which will feed through and become more and more significant over the years and into future generations.

There is plenty of evidence to show that with the proper focus and good multi-agency frameworks – which the reforms provide – it is possible to reduce offending by young people very significantly and, over time, for this to feed strongly into reduced crime and disorder on the streets. In Milton Keynes, for example, where similar policies and structures have already been in place for five years,



total crime has fallen over the last two years by 21 per cent, and residential burglary by 41 per cent contrary to trends elsewhere.

If these reforms are potentially so powerful then, what should the Government do for the rest of this Parliament? The answer is two fold. Firstly, they need now to consolidate and concentrate on helping those in the criminal justice system to deliver on the central thrust of the changes. In this they should reflect on the huge additional workload which the reforms and other demands are currently imposing on criminal justice managers. In policing, for example, over the last two years there have been no less than 27 Audit Commission and Police Inspectorate thematic reports published incorporating over 300 different recommendations, covering many important issues ranging from effective patrolling to estate management, and from community and race relations to the use of police surgeons. In addition there is the constant need to quickly respond to many of the bids for 37 separate avenues of funding for developmental programmes in local government and policing.

What is needed is effective 'joined-up' national government, providing greater consistency of approach, better co-ordination and a focus on outcomes. The Government has already laid down the thrust of the reforms, the 'what', but now needs to ensure it does not interfere in implementation by being over-specific and too detailed on the 'how'. Managers should be trusted to get on with it at the same time as being held to account for delivering and being supported in doing so.

Most criminal justice managers are supportive of the changes – they believe in them and want to deliver results – but dysfunctions between central government departments could direct resources and energy away from the main thrust of the reforms. For example, the linkages between school exclusion and truancy on the one hand, and youth crime on the other, are self-evident at a local level, yet at a national level there still seems to be limited connection between the policies of the Department of Employment and Education and those of the Home Office. Secondly, the Government needs to seek more ownership and help from the Judiciary in the reforms. Independent though they are, judges are important leaders and their contribution is currently limited. Where, for example, is the innovation in the UK which in other countries has seen judges take the lead in setting up drug courts, truancy hearings, or establishing more effective ways of involving victims in the criminal justice process?

The challenge to the Government therefore is to create the optimum conditions during the next two years for their reform programme to be implemented well. They will have succeeded if, within that time, examples start appearing around the country showing early results in relation to crime reduction. Their next challenge will then be to replicate the best models of 'what works' around the whole country. Ultimately, the acid test will be to assess how far their reforms have impacted upon levels of crime and disorder in five years' time.

## Rebuilding the welfare state: the moral case for reform

Alistair Darling

**The Government is delivering welfare reform in line with its vision for the welfare state. Our actions are based on a moral case for reform which reflects the duty we owe to our children to build a welfare state fit for their future. Two thousand children are born every day in Britain. In the final months of the 20th century a third of them will be born into poverty. If we do nothing these children will not only be born poor, they will live poor, and die poor.**

Though it is impossible for us to predict the future, we do know that a child born today will be working in 20 or so years' time and nearing retirement in 60 years. Every one of those children will need a welfare state that helps them through life; giving them the education necessary to get on in their youth, providing active help in obtaining skills when they are in work; and making sure they are secure in retirement.

The welfare state is one of the greatest achievements of the 20th century. It lifted millions out of poverty, provided people with a decent home, provided the health service and provided people's first pension. But now many parts of it, like the benefits system, are no longer up to the job. The DSS still pays benefits using order books, like the ration books introduced in the 1940s. Fifty years on the only innovation was to put a bar code on them. The benefit system all too easily traps people on benefit, writing people off when it should be providing them with active help to get back on their feet. Because of this many people are poorer than they should be, dependent when they need not be, and neglected when they should not be.

That is why we are reforming the benefit system: so that it helps people to help themselves, offers greatest help to those in greatest need, and provides up to date services designed from the perspective of the people who use them, not the people who run them. And we are putting resources into this: spending £6 billion to tackle child poverty, £2 billion extra for disabled people on benefits and £4 billion more helping pensioners. Moreover we are restoring public confidence in the benefit system by rooting out fraud and error, including saving £1 billion just by checking Income Support claims properly – without denying anyone a penny in the benefit they're due. This adds up to a strong start, but there's a great deal more to do.

### Ending child poverty

If you are born poor your chances of getting a decent education, a decent job



and a decent pension are severely damaged. If you're a Pakistani child, or a Black child, or a Bangladeshi child, you'll be even more vulnerable to these problems. We have a moral duty to do better: this is the stuff of moral crusades. Children born in run-down estates should have the same opportunities as those born in leafy suburbs - the same good health, the same decent education and the same hope for their future. That is why we are committed to ending child poverty in 20 years. By the end of this Parliament one and a quarter million people will be lifted out of poverty, 700,000 of them children.

We are already spending £1 billion on our record increase in child benefit. And we are helping more than a million children by radically reforming the Child Support Agency to make sure it provides a decent service to parents and children.

This is also why we made education our number one priority - because we know that poverty in later life is caused by children not going to school, and not getting the basic skills of reading and writing. Half of today's long-term unemployed have no qualifications at all. Teenage girls doing badly at school are more likely to become teenage mothers than those who are doing well. This is why the Government's educational policies - raising standards in schools, reducing truancy and our wholesale assault on illiteracy - are also policies against social exclusion.

### **Promoting work**

Work is central to our strategy. We're making sure our benefits system promotes work for those who can, while it provides security for those who can't. We all know that under the Conservatives, at a time of chronic unemployment, thousands of people were pushed out of the dole office and onto the sick-list. Between 1979 and 1997, the number of men on incapacity benefits, aged between 50 and 64, more than doubled; not because they were all sick, but because they were written-off and ignored. Between 1979 and 1997 the number of working age but workless households more than doubled. This was a major contributor to the growth in the number of children born into poverty.

We are taking a radically new approach, making sure children grow up knowing that work pays. We are rewarding hard work and effort with the national minimum wage, tax cuts, and the new Working Families Tax Credit. The New Deal has seen over 100,000 people get job opportunities. All of this new help is underpinned by economic policies that promote stability and growth, regeneration and employment. There are more jobs now than when we were elected, and youth unemployment has more than halved since we came into power.

### **New rights, new obligations**

The welfare state must of course provide a safety-net. But it must do much more



than that. Benefits can alleviate the symptoms of poverty, but they can't tackle the causes. It's very easy for the government to send out a giro but a giro cannot get people a job, or improve their skills or prospects. Because we want everyone to get the opportunities they need we've introduced the new ONE service which will make sure that in future everyone of working age who claims benefits also gets help and advice on work, training, childcare and benefits. The right that people have to that advice will be coupled with the responsibility they have to look at their options - not to write themselves off and think that because they have lost their job, or have been ill for a while, or are 10 years from retirement, that they will never work again.

We are determined to make sure no-one is ever again written off by the benefit system. That is why there is an element of compulsion in the new ONE service, with everyone of working age having to come in and look at their options. We are not forcing lone-parents or disabled people into work; rather, we are providing them with new forms of help to get work, childcare and training. We know that lone-parents are the best people to make decisions about what is best for them and their children. It is striking that eighty-eight per cent of lone-parents who come in to find out about the New Deal do actually join the scheme. The tragedy is that three-quarters of those contacted do not come in to find out in the first place so they don't know what is on offer. And if they do not know they have choices how can they choose what is best for them ?

In return for changing the culture of the benefits system so it provides new help and new opportunities we expect people who can work to do so - to help them help themselves. This means being tough, but only where it is fair and right to do so

## **Security in old age**

One of the first things we did when elected was tackle the poverty that many pensioners face today - by reducing VAT on fuel, and other measures to save thousands of pensioners £100 or more on their fuel bills; by our Minimum Income Guarantee, worth at least £75 a week for single pensioners, and at least £116 for a couple; and later this year we're helping every pensioner household with the Winter Fuel Payment - increased by us from £20 to £100.

Just as we have a duty to tackle pensioner poverty today so we have duty to prevent pensioner poverty in the future - to make sure the children of today don't become the poor pensioners of tomorrow. If we do nothing, in 50 years time 1 in 3 people would retire onto means-tested benefits. This is why we are reforming the pensions system, laying the foundations for the next 50 years or more. We are building on the bedrock of the Basic State Pension: providing significant new help for the low-paid, carers and disabled workers through our new State Second Pension; and making sure a lifetime of hard work is rewarded by using the State Second Pension to boost funded pensions. We are also intro-

ducing the new low-cost Stakeholder Pension to help people left out - or ill-served - by the current system: for instance, people like hairdressers, workers with temporary contracts, and parents who take breaks from work to bring up their children.

### **Planning for the future**

All these reforms are planning for the future. The question for us is not whether to change, but how to change. For too long some of the people who cared most about the welfare state have shied away from reforming it - even if it is failing the very people they claim to want to help. I don't want to be remembered as another Secretary of State who tinkered with the system - who patched and mended before handing it on to someone else to do the same. This Government always knew it wasn't going to be easy to reform welfare. We are taking on vested interests, decades of neglect, entrenched attitudes, and a massive benefits system that is now part of the problem - when it should be part of the solution. We want to be remembered because we had the courage to change the welfare state for the better.

Fran Bennett

Formidable challenges would have faced any government contemplating social security reform in the 1990s. The new Labour Government was also confronted in the UK with a legacy of massively increased poverty and inequality. Moreover, it faced a widespread perception that taxation had reached its politically acceptable limits – or at least that governments could no longer be trusted to spend additional tax revenues wisely. It was therefore unsurprising that New Labour did not find what it calls 'welfare reform' the easiest of policy areas. At first, it was said to be 'thinking the unthinkable', and appeared to be focusing solely on cutting costs. Cuts in lone-parent benefits got welfare reform off to a bad start. The initial Green Paper favoured a 'third way', but was short on detail, beyond a central formula of 'work for those who can, security for those who cannot'.

Now, however, Alistair Darling's essay treats reform not as a matter of economic necessity but as a 'moral crusade'. He outlines the Government's achievements to date, which he describes as being based on 'helping people to help themselves' and 'getting greatest help to those in greatest need'. Many of these achievements are innovative and welcome. In particular, the plethora of policies known as 'welfare to work' and 'making work pay' have tackled counter-productive benefit rules, and extended help and advice beyond the unemployed to other workless groups. Benefit levels have also been improved for various groups who cannot be expected to work. The ambitious drive to tackle child poverty – indeed, to abolish it altogether within a generation – includes significant increases in both universal child benefit and means-tested benefits for younger children, as well as new tax credits.

Alistair Darling's references to the need for 'difficult decisions', however, suggest that unresolved questions remain – though they give little clue about what these may be. We have still not had the national debate on the future of the welfare state from first principles that we were promised. Such a debate might offer some real insight into the Government's mid-term thinking on two key issues.

The first is the meaning of 'modernisation' – often undefined, and sometimes in danger of being interpreted as a code for benefit cuts. To demonstrate clearly that this is not the case, the Government needs to move forward on several fronts. The benefits system should be further adapted for the modern labour market. It is encouraging that the Government has promised to review the ex-



clusion of low-paid workers from national insurance; this should now be extended to examine the complicated relationships of low-paid, part-time and self-employed workers with the benefit system as a whole. A related but separate question is how to reform the system to match women's needs and living patterns. The Government has also made some progress here; but the differential impact of some benefit reforms on men and women has not always been anticipated. Finally, a real 'modernisation' agenda should consider the case for meeting new contingencies, such as payment for parental leave and and coverage for long-term care. Different countries' varying policy responses to similar challenges and constraints show that 'modernisation' does not have to imply inevitable moves in any one direction.

The second key issue is how to create a sustainable social security system. Alistair Darling refers to the duty to create a welfare state fit for the future, but does not discuss the complex questions involved. The Prime Minister has also talked of making the whole of the welfare state popular again – making clear that the main obstacles to achieving this lie within the benefit system. At a minimum, such a goal can mean ensuring the cost of social security is acceptable to taxpayers. More ambitiously, it can mean building broad-based political support for the social security system, and hence contribute to recreating trust between citizens and government.

The attempt to relegitimise 'welfare', therefore, lies at the heart of New Labour's reform project. For many people in work, tax credits will replace in-work benefits, as the government tries to create a sense of entitlement dissociated from the stigma of the (means-tested) benefit system. The conditions attached to claiming are being extended (in particular, by most working age claimants being required to attend periodic interviews to discuss their future prospects) – a move apparently aimed in part at reassuring taxpayers that the benefit system requires 'something for something'. The government has also focused on 'rooting out fraud and error', with the emphasis on anti-fraud drives. These policies represent attempts to rehabilitate 'welfare', either by disconnecting income transfers from social security altogether, or by making claimants into worthier recipients of benefits.

None of these measures is unproblematic, however. Indeed, each risks reinforcing rather than countering negative images of benefits or claimants. (The term 'welfare' is a problem in itself, evoking the punitive, residual nature of welfare for the poor in the United States.) Moreover, recent research suggests that, while the public is generally comfortable with linking benefit receipt with responsibilities, they have some concerns about the Government's ability to deliver on its own responsibilities, and also believe that in some areas these should be increased.

The Government's strategy could therefore appear high-risk. It also faces a major difficulty in attempting to create a popular benefit system when some of its

core reforms are seen as renegeing on its side of the social security contract, by restricting entitlement to national insurance benefits for many future claimants. The clearest example is the proposed changes to incapacity benefit. This threatens to undermine public trust at the very time that major structural changes such as the new pensions arrangements are being introduced and the better-off are being asked to pay more in national insurance contributions. Yet, paradoxically, national insurance is the prime example of the work-based contract central to New Labour's view of 'welfare'. It can also accommodate the partnership between state and private provision favoured by the Government – whereas means-testing, even if it does not discourage saving, certainly does cause resentment amongst savers when their efforts count for nothing.

The longer-term future of national insurance is still unclear. It looks to some as if the Government is letting it wither away. The partial alignment of national insurance contributions and income tax also suggests the possibility that they may be fully integrated in the future. Others point to measures extending benefit rights, or making it easier to qualify, to argue that the signs are more ambiguous. Ministers say they prefer to act pragmatically, on a case-by-case basis. The danger is that the results can either be contradictory, or (as Professor Ruth Lister has argued) drift in one direction by default. Recent research shows the public wants greater transparency from the Government about its intentions on contributory benefits. Private providers are likely to feel the same. A real public debate on national insurance is long overdue.

At mid-term, therefore, the verdict on welfare reform must be mixed. The Government has introduced some exciting and innovative new policies, and shifted the centre of gravity of social security debates to a focus on an 'active' welfare state with paid work at its heart. It has managed to combine its radical commitment to tackle child poverty with a broader goal of supporting all children. But 'modernisation' still appears to include moves towards more means-testing (even if often in the guise of tax credits) – despite the difficulties this creates for achieving other important Government objectives, and the lack of public enthusiasm. The welcome emphasis on investment in building people's capacities is long overdue, but does not include sufficient recognition of the damaging impact of low benefit levels on the people who receive them. Finally, judging by Alistair Darling's essay, the Government acknowledges that it has not created a consensus about the way forward.

The longer-term outcome of changes made so far is unclear – particularly the introduction of tax credits, in terms of both administration and public reaction. The implications of the Treasury's new and prominent role in welfare reform are also uncertain. The most important unknown, however, is whether the Government's approach and policies provide a sufficiently stable foundation on which to build a coalition of support guaranteeing the long-term viability of a comprehensive, multi-purpose social security system.



## **People and knowledge: towards a new industrial policy for the 21st century**

Stephen Byers

**We are witnessing a fundamental shift taking place in our economy and society. It is driven by globalisation, and the increasing economic impact of technology and innovation, and it is changing the nature of work and of the workforce itself. For most of our history wealth and power has come from the control of physical assets – land, raw materials, coal, iron and steel. In the next century it will come from human and intellectual capital.**

Look around the world today and its chief characteristic is change. The force of change outside our country is driving the need for change within it. The market left to its own devices cannot educate or equip us for this world of rapid change. We must make sure that markets work effectively. This means having a strong and robust competition policy and consumers who are well informed and confident. But on the eve of a new century we also need to think about the sort of society we want to become. I believe that we need a knowledge driven society. Knowledge can be both empowering, liberating and a source of economic well being. That is why our agenda is founded on empowering people through education, learning, skills: We want a society in which people are more able to take charge of their lives. We also want them to raise their sights, to collaborate, to compete, to share ideas and to share risks. To achieve this we need a new coalition between government, business and society – a coalition that is at the heart of the politics of our Government.

### **Building a knowledge based economy**

The challenge for public policy makers is how to prepare Britain for a world in which knowledge is the new currency. Successful economies and societies will be those that can adapt to the demands of such rapid change, that are flexible and creative and manage change rather than being submerged by it. They will be those which find ways to include all their people, not just a new knowledge elite. An approach built around a new coalition, but with the objectives the left of centre political parties have always aspired to: to create a better standard of life for our people, to ensure British business succeeds at home and abroad, and to tackle exploitation in all its forms. This is an approach which recognises that the role of government has fundamentally changed, but that it still has a critical part to play in improving the performance of the British economy and in improving life for all.

First and foremost, we can create a stable macro-economic environment. Stability matters more than ever in the new economy, because more than ever we



need businesses to invest in knowledge – be it through R&D, or through training, as well continuously to take risks to stay ahead in fast moving markets. We can ill-afford this vital investment to be put off through fears about the economy and its long term stability. That's why we gave the Bank of England independence, and tackled the hole in the public finances which we inherited.

Second, we must invest in people. In this new economy, the educated and trained individual will be king. Already graduates earn twice as much on average as those with no qualifications. But because of the increasing importance of knowledge, the average salary for graduates is also growing far more quickly – more than half as fast again. Those with no qualifications are four times more likely to be out of work. We cannot allow the growing importance of knowledge to create a new generation of haves and have-nots. That's why we are investing so heavily in education as a Government, and why we are so committed to raising standards.

Third, we need the right infrastructure. We want to make Britain the best place in the world for electronic trading. In the two years since the election we have done much to turn this ambition into reality. The key is the provision of a comprehensive electronic communications network. OFTEL has opened up BT's local network to allow the competitive provision of higher bandwidth services and consultation on licensing new spectrum to allow broadband wireless services. And we have also placed the UK at the vanguard of Europe in terms of the licensing of third generation mobile services. To give people access to these networks we are creating 800 IT learning centres, giving community based access to the National Grid for Learning and the University for Industry. We are also encouraging the recycling of computers for those who cannot afford new ones, and we have set a target of 1.5 million small and medium-sized enterprises wired to the digital market place.

People must have confidence in these technologies if we are to realise the enormous potential of the e-commerce revolution. We will achieve this through our proposed legislation on electronic communications, and programmes such as the Information Society Initiative and the creation of "Trust UK", an industry led body aimed at boosting confidence in internet shopping through an on-line hall mark to identify best practice websites. The Government is doing more than encouraging progress – in some areas we are leading the charge. We have said that all government services will be capable of being delivered electronically by 2008, and by 2001 we aim to conduct 90 per cent of routine procurement electronically.

### **Open markets, strong consumers, and fairness at work**

Getting the infrastructure right is only the beginning. As the world opens up British firms will only succeed in winning market share if they have access to markets and the capability to compete. Opening up markets will also be one of my priorities – we are driving this forward in the UK where, for example, there

is now full competition in electricity and gas supply. We need to open markets in Europe where we have been at the heart of the campaign to complete the single market. We are also working with others to continue the drive for global free trade and increased liberalisation of goods and services. Within those markets competition will always be the greatest spur for innovation and the provision of genuine consumer choice. Next year will see the start of a new competition regime in the UK which will ensure that anti-competitive practices and the abuse of dominant positions can be halted and punished. The consumer has a key part to play in the drive to improve our competitive position and raise productivity. That's why we have brought forward a wide-ranging White Paper on consumer issues which will help to create the link between informed consumers and businesses. We will increase access to advice for consumers, promote better research of consumer issues, and ensure that the consumer interest is properly represented in Government.

Another crucial area is employment law. The changes we have made are an integral part of our broader policy to improve our competitive edge. I believe that our commitment to setting minimum standards in the workplace is necessary to create a motivated and productive workforce. Of course, we accept entirely the need to avoid over-regulating businesses. I don't want counterproductive, undue burdens: the challenge for Government is to strike the right balance. We are living in a world where the nature of work and the needs of those who work are changing dramatically. We need to ensure a balance between rights and responsibilities in the workplace.

### **Supporting innovation**

In a world where product lead times are becoming ever shorter, companies need constantly to develop and adopt the best products, techniques and practices. A measure of the importance the Government places on this is the increase in science budget of £1.4 bn. At the same time in DTI our innovation budget was boosted by 20 per cent. But those are only the headline measures. At all levels we are working with others to increase the transfer of knowledge and expertise. We are working with the CBI on their Fit for the Future campaign and with universities on the science enterprise challenge and the newly created Reach Out Fund. We are investing £30 million into Faraday Partnerships – a key part of the Government's objective to enable our universities, independent research organisations, manufacturing industry and the finance providers to work more coherently together. They are a unique way of putting in place in this country the sort of enterprise that we see on the West Coast of the USA; people from the research, business and finance communities working together to bring new products to market more quickly and efficiently than we have achieved before.

In the knowledge driven economy it is small firms that will play a key role. We have set up the Small Business Service to give them a powerful voice at the



heart of government and to ensure that government services are delivered to them in an easily accessible coherent manner. The nature of those services has also changed, with greater emphasis on high value added, knowledge-based companies. These companies will benefit from the creation of the Enterprise Fund, greater support from the regional venture capital fund and the refocusing of regional selective assistance that will target government support on those firms that can genuinely make a difference.

### **A risk-taking society**

But if we are to exploit the potential of our companies and our people to the full, then we also need to see a revolution in attitudes. I am encouraged by the fact that the younger generation appear to be both far more ambitious and far more excited by the idea of pursuing a business idea. What we need to do is to promote this greater enthusiasm for enterprise and hard-work across all ages. Too many of us still conform to the old stereotype of the British preferring people to fail than achieve genuine and deserved success. Shifting British culture onto a more enterprising and less risk-averse track will take time. But we must all aspire to change the national mood if we are to create an outward looking, confident society, fit to take on the 21st century. The public sector also needs to change or risk being left behind by events. It is moving far more slowly than the pace of change in science, technology and commerce.

The answer must lie in the modernisation of all our social and political institutions. We must look at everything afresh, from the detail of individual policies down to how we develop policy, communicate and deliver it. This doesn't mean we should throw everything we have inherited overboard, but that we must secure a faster rate of innovation and learning in policy making and the public sector. This is important, because the public sector will play a critical role in this new economy. If the public sector is averse to trying things, perhaps putting bureaucratic process before effective outcomes, then it will be a drag on success in the new economy. All individuals and all businesses stand to be affected to some degree or other by the new realities of the knowledge driven economy. The more creative you are, the more dynamic and enterprising, the more you stand to benefit. We must recognise that this is not solely about new technology, but about new ways of working, of communicating, and new sources of value. Though I have only scraped the surface of it here, this programme of action is a distinctive approach to industry policy. And it is an approach which I firmly believe offers the best prospect of putting Britain onto a path for sustainable growth, and for creating wealth, jobs and opportunity for all the people of Britain.



Rosemary Radcliffe

**Stephen Byers' mid-term account of the performance of the Department of Trade and Industry draws attention to some of the achievements for which he and his predecessors can claim credit. But it also provides one or two hints as to what remains to be done and where policy might usefully be further developed in the future.**

Stephen Byers' essay, interestingly, provides a relatively clear statement of the overall strategic objective of industrial policy: it is 'to create a better standard of life for our people, to ensure British business succeeds at home and abroad, and to tackle exploitation in all its forms'. This amounts to combining the aspiration of an 'efficient competitive economy' with that of a 'fair and just society'; as John Smith pointed out, these are two sides of the same coin.

The problem which the DTI has always had, and still has under this administration, is that other Departments are responsible, in whole or in part, for some of the key policy areas which determine whether or not this objective can be met. The essay mentions two of these: the need for a stable macroeconomic environment (where the Government can already claim credit for some success with regard to the management of the current economic cycle, although a substantially over-valued pound takes some of the edge off this); and the need for better-educated and trained individuals (where the Government acknowledges what every survey of employers has always stressed – the importance of basic standards of literacy and numeracy in the workforce). Stephen Byers' contribution might also have added the importance of the physical infrastructure, particularly in relation to transport; and the equitable management of economic activity between regions. But the DTI has direct control over none of these. This leaves it with responsibility for addressing a range of 'market failures' which impact on either or both of the 'efficient, competitive economy' and the 'fair and just society' objectives.

Some of the areas identified for action by Stephen Byers are clearly appropriate. For example, he emphasises the importance of competition and regulatory policy, although it is still too early to judge the efficacy of the government's approach here. He also lays considerable stress on the 'infrastructure' for the knowledge-driven economy. Building a comprehensive electronic communications network, and ensuring access to it, are identified as priorities. This is right, but there is another aspect to the e-commerce revolution which is touched on but which deserves much greater emphasis. This relates to the 'next generation' problem of excess information and what can be done to provide 'trusted' routes through the information maze for those individuals who do not wish to spend

their lives on the Internet. It may be that a public sector 'brand' no longer attracts confidence in the way it might have done thirty years ago, but it is not clear that existing or new commercial brands will be able to attract public confidence either. This looks set to be a big public policy issue of the future, and one on which the DTI should be taking a lead.

There are other important aspects of the 'infrastructure for a competitive economy' which are not commented on. One example concerns the reform of the framework of company law, where the DTI has in fact initiated a major review, albeit one with an inevitably long timescale. Tidying up and modernising the law in this area must be an important objective, not least because of the implications of company law for competitiveness, via its effect on corporate governance and disclosure of corporate information. Indeed, this represents another key policy challenge for an 'information society': shifting from a business environment in which corporate information is disclosed on an annual or quarterly basis, to one where disclosure is a continuous process. Another issue concerns the vexed question of the financing of business. Again, this is not a policy area over which the DTI has sole discretion, but the 'short-termism' debate is far from over and will doubtless be reignited as capital market reform in continental Europe proceeds apace following the introduction of the single currency. Finally, there is the role which DTI can play in areas such as spreading best practice; businesses undoubtedly learn best from one another, but that does not prevent government from playing a key role in promoting and disseminating information.

Implementing policy will pose particular challenges for the DTI in the information age. Inter-connections between different areas of industrial policy – both within DTI and across Departments – are becoming more, not less, important. To date this has not been properly reflected in the Government's approach to policy evaluation, or in the way in which individual performance is appraised. There would also appear to be much more scope for using Executive Agencies to deliver services and initiatives. This has started in the Small Business area, but it could be extended into other areas, particularly given the new needs of the information age.

Another area which, again, is touched on but not fully developed is the focus on the consumer. 'Consumer-centricity' – all the aspects and implications of understanding consumers and their tastes and preferences and putting them at the centre of business decision-taking – is now a big issue in corporate boardrooms. The DTI is addressing aspects of this through competition policy. It has also brought forward a White Paper which starts to focus on the 'informed consumer'. But more could be done. An unequivocal focus on consumers and their needs is likely to be a key issue for policy makers in the information age. The DTI will have to consider how comfortably this task sits alongside its traditional role of 'industry sponsorship'. As the post-war experience at MAFF has shown, it can be difficult for the same department to champion the cause of

both consumers and producers.

Indeed, perhaps more controversially, it may be asked if there is any longer a role for traditional industry 'sponsorship' which is the focus of the DTI's industry dimension. Not only are sector boundaries blurring and converging in the new environment, making old-style sector definitions less relevant, but as importantly, it is not clear whether an advocacy role for individual sectors is an appropriate policy focus in the new information age. It could be that the time is now right for a complete overhaul of the organisation and management of the Department in the light of its changing roles and priorities.



## Enterprise and fairness

Gordon Brown

Every generation has to apply its values to new circumstances. But our generation has more reasons to do this than most. The last time economic and social changes of the magnitude we are now seeing took place was in the 19th century as we moved from an agrarian to an industrial age. The changes we face in the 21st century economy involve permanent economic revolution: continuous and rapid innovation that compels unprecedented flexibility and adaptability in skills and knowledge. Increasingly every good and every service will be exposed to relentless global competition. And to equip ourselves best to meet and master these challenges, we need a pro-enterprise, pro-opportunity Britain. The key insight of the 1990s is that the modernisation of the economy can be achieved only by spreading opportunity more widely in employment, education and the economy generally. So as the century ends we are leaving behind in the old century the old British conflicts between a left that undervalued enterprise and a right that undervalued fairness. We are taking a range of steps in economic and social policy to create this enterprising and fair Britain.

### Ensuring stability

When we came into government, we set as our central economic objective achieving in a new world the 1944 aim of high and stable levels of growth and employment. Our first task was to deliver a platform of stability based on low inflation and sound public finances. In 1997 we faced the prospect of another inflationary spiral, derailing the British economy. So to get inflation and the public finances under control, we broke decisively with the old short-termist and unstable record of macroeconomic policy-making and put in place a new monetary and fiscal framework – not only making the Bank of England independent but defining new objectives and setting down clear rules and open procedures for making decisions – a new inflation target and new fiscal rules.

As a result of the decisions we took, inflation has been brought down, and long-term interest rates and mortgage rates are now their lowest for over thirty years. By taking the same tough action to tackle the fiscal deficit which we inherited, we not only cut public borrowing in our first two years by £32 billion, but also put in place a long-term fiscal framework, underpinned by legislation, with clear rules that, over the cycle, there is a current budget balance and prudent levels of debt. This same commitment to stability and prosperity and to the national economic interest will guide us in our approach to European Economic and Monetary Union – with our determination to apply the five

economic tests on jobs, investment, financial services, flexibility and convergence and our promise that in any decision the British people will have the final say.

### **Building an enterprise economy**

While stability is a necessary pre-condition to deliver our objectives for growth and employment, it is not sufficient. If we are to bridge the productivity gap with our competitors and raise the long term growth rate of the economy we must combine our strategy for stability with major structural reforms of our product, capital and labour markets to create a new British enterprise economy. Thirty years ago governments responded to the productivity challenge with top-down plans, and tax incentives and grants primarily for physical investment. Today it is more complex – involving the modernisation of capital, labour and product markets, and creating an economy with an enterprise culture open to all. I want Britain to be a world leader in enterprise - a Britain in which greater competition at home is recognised to be the key to greater competitiveness abroad. There are six core elements to our approach.

First, because we believe investment in enterprise is the key to success in the new economy, our new British enterprise economy has seen the main rate of corporation tax cut from 33p to 30p, the lowest rate in the history of UK corporation tax and the lowest of all major industrialised countries. The small companies tax has been cut from 23p to 20p, with a new starting rate of 10p. And an assurance has been given to business for the remainder of this Parliament that instead of the business tax rates we inherited of 33p and 23p, our rates will be 30p, 20p, 10p or lower. We have reformed capital gains tax to reward committed long term investment, to nourish a new enterprise economy open to all the talents, creating, for the first time, a long term rate of only 10 per cent for business investment.

Second, because competition is the spur to efficiency and innovation, the new British enterprise economy will have the most open competition policy this country has ever seen. Not only is competition the best guarantee of rewards for innovation and hard work but it also offers the best prospect of a better deal for consumers and lower prices. It is wholly unacceptable to this Government that some consumer goods can still cost twice as much in Britain as in America and we propose tough action. In order to ensure that competition will be encouraged for the long term needs of the economy and the public, we are making our competition authority independent and free of political influence and we are opening up the utilities, consumer goods and financial services to even greater competition. Just as the days of uneconomic state subsidies and picking winners are over, so too will we end the days of political decisions about mergers. Where there are barriers to competition we will tackle them.

Third, the new British enterprise economy needs to create the new high tech



companies of tomorrow. So to motivate, recruit and reward Britain's real risk takers, the innovators creating wealth and jobs in Britain today, we have created a targeted tax cut for those managers who are prepared to move from safe, secure jobs to risk their time, effort and savings to create wealth for our country. Next year we will introduce measures so that growing enterprises will be able to offer their key personnel tax-advantaged options over shares up to £100,000.

Fourth, we recognise that innovation is the key to the success of the new British enterprise economy. So we will have a tax cut for innovation and R&D that will be one of the best incentives for innovation anywhere in the industrialised world. Our new R&D tax credit gives even the newest and smallest business, even before they make their first profits, cash help to research and develop their innovations. At a cost of £150million, this targeted tax cut ensures that almost one third of small business research and development costs will be underwritten by government. But we need to do even more to turn scientific inventions in Britain into jobs for Britain by honouring the spirit of invention, facilitating the exploitation of invention and encouraging the commercialisation of invention. The seedbed is basic science so we are investing an extra £1.4 billion in basic scientific research. Our University Challenge Fund is designed to provide seedcorn finance to commercialise inventions; and to develop business expertise in science and to transfer technology from the science lab to the marketplace, the Government is creating new Institutes of Enterprise. Britain's venture capital industry has been strong on management buyouts but weak on high tech, high risk ventures. So we are encouraging early stage, high technology companies, through a new venture capital challenge fund and we will be introducing incentives to promote corporate venturing.

Fifth, to give all who create wealth a greater stake in the wealth they create the new British enterprise economy will be genuinely open to all, with a new programme of shares for all, in which employees will be able, for the first time, to buy shares in their own companies from their pre-tax income. Every employer will be able to match, tax-free, what each employee buys. The only condition is that the scheme must be offered across the company's entire workforce.

Finally, Britain's new enterprise economy needs a national effort to meet our biggest economic challenge of all: that everyone can master the new information technologies maximising the potential of computers, the internet and electronic commerce. Our £1.7 billion "computers for all" programme will enable small businesses, individuals, families, schools and libraries to use and learn more about computers, modems and related equipment – and will create a national network of 1,000 computer learning centres in these schools, colleges, libraries, internet cafes and on the high street.

## **A new employment policy**

Achieving an economy that is enterprising and fair demands a new employment



policy which equips people to succeed. When we came into office, four and a half million adults lived in households where nobody worked, double the level of 20 years ago. Nearly one in five children were growing up in households where no-one is working, twice the rate of France and four times the rate of Germany. And the reason that this issue of unemployment poses a massive challenge is that it is now the primary cause of poverty.

Twenty years ago, pensioners made up the largest section of those in poverty. Today it is those living in workless, working age households. Simply compensating people for their poverty through benefits is not enough, the task must be to deal with the causes of poverty. The best form of welfare is work. Our strategy has been to tackle the barriers that people face to getting into work – the lack of employment, the unemployment and poverty traps, the absence of necessary skills, even the absence of child care. Already over 280,000 young people have joined the New Deal and over 105,000 have found jobs – the vast majority sustained jobs. A further 71,000 are gaining valuable experience on New Deal options. And 51,000 employers have signed up to the New Deal. Since the election, long-term and youth unemployment has more than halved. Now we have extended this approach to the long-term sick and disabled, partners of the unemployed, lone parents and, soon, to the over 50s.

When this Government came to power, with no minimum wage in place and the tax and benefits system unreformed, many of those without work faced an unemployment trap, where work paid less than benefits, and the low-paid in work faced a poverty trap which meant that they faced marginal tax and benefit rates of 80, 90 or even over 100 per cent. To make work pay we have introduced the national minimum wage and we are now introducing the Working Families Tax Credit. Under the old system the tax system set a personal allowance that failed to ensure that work paid, and also made thousands pay tax even as they claimed benefits. In the new tax system working families will be guaranteed a minimum income, and by step-by-step integration of tax and in-work benefits, this minimum income will be paid through targeted tax cuts and tax credits. In future no-one in work should have to go to the benefits office to receive a living income. From October of this year, the Working Families Tax Credit will mean that every working family with someone working full-time will be guaranteed a minimum income of £200 a week, more than £10,000 a year. No net income tax will be paid until earnings reach £235 a week. A family with two children earning £200 a week will receive an additional income of at least £60 a week. Those with earnings of £250 a week will receive at least £42 a week more, and those with earnings of £300 a week will receive at least £23 a week more.

### **Addressing poverty**

Our measures so far lift one and a quarter million people out of poverty – 800,000 of them children. Taking all our reforms together – Working Families

Tax Credit, children's tax credit, rises in child benefit and other tax changes – a family on £13,000 a year will gain up to £50 a week – £2,500 a year. The next step is to extend the principle of the WFTC, and our long-term aim – which we began in the Budget with an employment credit for the over 50s returning to work – is an employment tax credit, paid through the wage packet, which would be available to households without children as well as households with children. To make work pay we have introduced the minimum wage and a new system of in-work tax credits. To reward work and encourage job creation we have also introduced the new 10p starting rate of tax; reformed employees' national insurance to eliminate the perverse entry fee and align the starting point for national insurance with that of income tax; and reformed employers' national insurance to help create entry-level jobs. And to ensure people have the skills for jobs, we are not only investing £19 billion more in education but also setting up Individual Learning Accounts and a University for Industry.

We say that every child should have the best possible start in life. This Government sees it as a national goal which is why Tony Blair has said we will abolish child poverty over 20 years. The Working Families Tax Credit is important to this objective. So too is improving public services – health visitors, nurseries, playgroups, childcare, learning support – in the poorest communities with our Sure Start programme, and mobilising the forces of concern and compassion in each and every community of our country. Child poverty is unacceptable and these measures show our determination that every child in our country is able to fulfil his or her potential.

What unites everything we do as a government – delivering economic stability, nurturing economic dynamism, ensuring economic and employment opportunity for all, making work pay, improving public services and tackling child poverty – is that this is a government on the side of Britain's working families:

- creating stability in which families can flourish
- delivering higher living standards with the lowest mortgage rates for 33 years
- helping businesses to grow with a favourable tax regime
- putting our young people back to work with the New Deal
- making work pay more than benefits with the minimum wage and Working Families Tax Credit
- tackling poverty and inequality at source with, by the end of the Parliament £6 billion invested in children and families
- improving public services with investment – £40 billion for health and education – and reform.

My vision is of a Britain where there is economic stability for investment rather than economic or political instability; a Britain which is business-friendly, working with business rather than in isolation from it; a Britain which tackles our biggest problem – welfare dependency and unemployment – the key to unlocking funds for the reform of our other public services; a Britain that makes the vision of our country as a world leader in education the centre point of both our economic and social ambitions for the long term. A Britain where public and private sectors, instead of fighting each other, work constructively together with a new sense of national economic purpose. The challenges are enormous and many, but if we work together the prize is a modern economy more fit for the challenges ahead, ready to ensure employment opportunity and greater prosperity for all our people in the years ahead.



### Andrew Gamble

**In their strategies for managing the economy Labour governments since 1945 have sought to combine economic efficiency and social cohesion, stability and welfare. But each has faced different circumstances and different challenges. As Gordon Brown notes, the most significant feature of the present global economy is the intensification of competition. Today's challenge is based on designing welfare programmes and strong public services that not only promote a fairer society but also have a crucial role in enhancing competitiveness and employability.**

The Government's first task, as Gordon Brown makes clear, was to put in place a framework to deliver macroeconomic stability, without which the achievement of all its other objectives would be imperilled. Immediately handing over operational responsibility for monetary policy to the Monetary Policy Committee of the Bank of England was a masterstroke which has helped to build long-term confidence. Most of the critics have now come round, especially when the recession widely predicted for 1999 failed to materialise. It is also now recognised that the symmetrical inflation target that the Chancellor selected means that the policy is not biased towards deflationary outcomes as many feared.

But macroeconomic policy dilemmas remain. The Government has still to decide whether to recommend that Britain joins the euro. Supporters used to argue that membership of a currency union in a continental sized economy was much more likely to deliver macro-economic stability than relying on Britain's own macroeconomic management, which has been highly flawed in the past. Arguably the very success of the current macroeconomic regime now makes adopting the euro a harder choice. The European Central Bank would be less accountable than the Bank of England's Monetary Policy Committee, and might pursue a more deflationary policy. But the prize of removing exchange rate fluctuations for companies selling into Britain's largest market is still very tempting. Joining the euro will be the key economic policy decision of the next Parliament.

The new framework has greatly increased the credibility of the Government in the financial markets, but its effects on two enduring problems of British macroeconomic management are less certain. There remains an imbalance in performance between different regions of the national economy. Although the economy as a whole avoided recession in 1998/99, this was largely because of the buoyancy of the South East region with its greater dependence on services; several regions with greater dependence on manufacturing did go into recession

in this period. Macroeconomic policy remains very insensitive to their needs. The second problem is underinvestment in productive assets. In the past the British economy has experienced cycles based on inflated asset values to the detriment of long-term productive investment. Although the new macroeconomic framework may moderate such cycles, it is unlikely by itself to be sufficient to eliminate the causes of them. There is as yet little evidence that rates of long-term private sector investment have improved.

Gordon Brown also rightly claims that his conduct of the public finances has been prudent. He held the Government to the Conservatives' spending totals for its first two years, has not increased rates of income tax or VAT, and has adopted tough fiscal rules. All this has been in marked contrast to previous Labour governments whose spending programmes quickly overtook their ability to finance them, with predictable consequences. The toughness of the spending regime in the first two years has brought a significant cultural change in Labour's attitudes to public spending. The intense appraisal of existing programmes which was made necessary has had beneficial consequences in making the Government much clearer about its strategic key priorities.

Despite the tightness of his self-imposed constraints Gordon Brown has found extra resources by exercising considerable fiscal ingenuity; from the windfall tax on the privatised utilities to fund the New Deal programme, to new taxes on pensions and increased taxes on petrol and tobacco. This has allowed him to announce substantial real increases in spending, targeted on health and education in particular. He has also substantially redistributed income towards low-income families through raising child benefit, increasing income support and introducing the Working Families Tax Credit. Overall his measures have been significantly redistributionist and have increased taxation, while retaining the approval of both the electorate and the tabloids.

Gordon Brown has already gone a long way to changing the presumption that Labour governments are reckless with the public finances, but his problem is now the opposite: can he deliver Labour's commitment to making significant progress in reversing the deterioration in the quality of British public services that took place under the Conservatives before the next election? The increases in spending, although significant in absolute terms, are still much below what would be needed to make quick inroads into the years of neglect. Brown's implicit political judgement was that holding spending tight for the first two years of the Parliament was right for both counter-cyclical reasons and because it would still allow enough time for the spending increases in the last part of the Parliament to make an impact on how voters perceive the quality of public services. The first part of that judgement has been vindicated. The second is still to be tested.

In searching for ways to increase the funding for public services the Government has three broad choices. It can find ways to get more private money into

public services through innovative private/public partnerships; it can rely on the fiscal dividend from steadier economic growth to allocate more resources to public services; or it can increase the tax take by a combination of raising taxes and broadening the fiscal base by unwinding the subsidies which are still paid to higher income groups. Getting the balance right between these three is at the heart of contemporary fiscal politics. The hardest, politically, is the last one. Britain's political economy in the last twenty years has been built on the assumption that income taxes can be cut but not raised. It will be when a Labour Government feels it has sufficient fiscal credibility to vary tax rates up or down as the situation demands, that the 'old politics' will truly have been put to rest.



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