The Centre for Enterprise, Markets and Ethics

Enterprise and Values Series

The challenge of social welfare:
seeking a new consensus

Edited by Richard Turnbull

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Contents

The Centre for Enterprise, Markets and Ethics

We are a think tank based in Oxford that seeks to promote an enterprise, market economy built on ethical foundations.

We undertake research on the interface of Christian theology, economics and business.

Our aim is to argue the case for an economy that generates wealth, employment, innovation and enterprise within a framework of calling, integrity, values and ethical behaviour leading to the transformation of the business enterprise and contributing to the relief of poverty.

We publish a range of material, hold events and conferences, undertake research projects and speak and teach in the areas with which we are concerned.

We are independent and a registered charity entirely dependent on donations for our work.

Our website is www.theceme.org.

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Preface

In July 2015 the Centre for Enterprise, Markets and Ethics, an independent think tank dedicated to research into enterprise and the economy from an ethical perspective for the good of society, held a symposium at the House of Lords.

The purpose was to ask questions about how we might seek a new consensus in the areas of welfare and social justice. The contributors were deliberately diverse. However, our conviction was that something had gone wrong in the debates about welfare that was preventing collaboration towards solutions. We were united in our conviction that poverty was not acceptable in a civilised society. However, we also felt that new ideas, new thinking, some hard but honest questions about morality and responsibility needed to be brought to the table. Similarly we felt that business and enterprise were part of the solution to the equation, but that new models of approach and structure were needed.

The essays that follow have been gathered together by the Centre's Director, Richard Turnbull. Two of them, those by Maurice Glasman and James Perry, represent their contributions on the day. Brian Griffiths has added some further reflections to his work and Richard Turnbull has contributed a piece putting the debate into context.

We are very grateful indeed for the support of CCLA Investment Management Limited for their sponsorship of the original event and this publication.

Contributors

Lord Griffiths of Fforestfach

Lord Griffiths taught at the London School of Economics, was Professor of Banking and International Finance at the City University and Dean of the City University Business School. He was a director of the Bank of England from 1983 to 1985. He served at No. 10 Downing Street as Head of the Prime Minister's Policy Unit from 1985 to 1990. Since then, Lord Griffiths has been Vice Chairman of Goldman Sachs International and an international advisor to Goldman Sachs. He is currently a non-executive director of Times Newspaper Holdings Ltd.

Brian Griffiths has written and lectured extensively on economic issues and the relationship of the Christian faith to economies and business, and has published various books on monetary policy and Christian ethics.

Lord Glasman of Stoke Newington

Lord Glasman has been a Labour member of the House of Lords since 2011. He was brought up in a Jewish family. He studied at the University of York and then undertook a PhD in Florence on the German social market economy. Lord Glasman was Reader in Political Theory at London Metropolitan University, where he was also Director of the Faith and Citizenship Programme. Maurice Glasman pioneered the development of 'blue labour', emphasising the conservative and communitarian values of the Labour Party.

James Perry

James Perry co-founded Cook Food, which now employs around 650 people and is committed to the role of business in creating social value. Through the Panahpur foundation James has also led an extensive programme of social impact investment and finance. James also sits on the Advisory Council of Big Society Capital. He is also co-founder of B Lab UK, the charity co-ordinating 'B corp' activity in the UK – the movement that seeks to encourage business to incorporate social objectives into their constitutional documents.

Revd Dr Richard Turnbull

Richard is the Director of the Centre for Enterprise, Markets and Ethics. He studied economics and then spent eight years as a chartered accountant with Ernst and Young. He holds a first-class honours degree and a PhD in Theology from the University of Durham. Ordained in the Church of England, Richard has served as a member of the Archbishops' Council, the Chairman of the Synod's Business Committee and has chaired church working parties. Richard served as a minister for ten years and was Principal of Wycliffe Hall, a Permanent Private Hall of the University of Oxford from 2005 to 2012. He has authored several books (including an acclaimed biography of the social reformer Lord Shaftesbury), is a member of the Faculty of Theology of the University of Oxford, Visiting Scholar at Campion Hall and a Fellow of the Royal Historical Society.

Chapter 1

Moral questions

Richard Turnbull

Introduction

Poverty is a scar on humanity.

Samuel Johnson, a high Tory, claimed in 1770 that 'decent provision for the poor is the true test of civilization.'[1] For R. H. Tawney, a socialist, there is nothing that 'reveals the true character of a social philosophy more clearly than the spirit in which it regards the misfortunes of those of its members who fall by the way'.[2] Another Tory, Lord Shaftesbury, described the continued cruelty, oppression and indeed deaths of child sweeps as 'a disgrace to England'.[3]

'Poverty is a scar on humanity.'

Today the same agreement on the unacceptability of poverty would cross party, think-tank, academic and faith divides. However, any accord is largely limited to the problem itself. This is a shift historically and potentially damaging to the quest for genuine solutions. The collapse of the consensus over poverty focuses around three questions, although the underlying problem is a deeper one.

First, the debate about *measurement*. How should poverty be measured? A concern about poverty in an absolute sense (adequacy of food, clothing, housing) may focus on safety nets and a richer role for voluntary societies, whereas an emphasis on relative poverty (the bottom 20 per cent) is more likely to see a greater role for government redistribution. Hence the debate moves from poverty to inequality. To this question we will return.

Second, the debate about the role and size of the *state*, specifically the *welfare state*. Tory utopianism in the nineteenth century masked the fact that voluntary charity provision was patchy. However, the provision of universal state benefits also has unintended negative consequences:

the squeezing out of the voluntary sector as well as a loss of personal responsibility and moral compass. The state has become the answer to every question. Excessive emphasis on 'relative poverty' and 'income inequality' distorts the role of the state and leads to an ever-larger public sector, which becomes more concerned with redistribution than with the prevention of poverty. The suggestion is sometimes made that for advocates of market capitalism the state has no role. However, 'friends of capitalism do not argue that the state has almost no useful role to play.'[4] To suggest otherwise is potentially very damaging to the cause of poverty relief since creative partnerships between the state, the voluntary sector and the market can play an important role in social welfare.

'Intermediate institutions that lie between the individual and the state are the bulwark against extreme individualism and an excessively powerful state.'

If we are, as a society, to have a sensible, well-informed debate around the common objective of ensuring that as few as possible of our citizens live in poverty, then it is imperative that the role of neither the market nor the state is stigmatised.

Third, the role of the *voluntary sector*. Intermediate institutions that lie between the individual and the state are the bulwark against extreme individualism and an excessively powerful state. Is it possible to harness the locality, dynamism and community spirit of the voluntary society to the efficient and effective elimination of poverty on a national scale and in a consistent way? Can 'market-based' solutions to social evil, with their strong historical precedents, assist today? There is a long history of a dynamic voluntary sector in the provision of social welfare within the UK, alongside appropriate provision and protections provided by the state. The industrialisation of Victorian Britain exemplifies this approach. Large-scale movements of people, the accumulation of capital, the development of cities all contributed to both economic growth and the complexities of poverty, housing and employment conditions. The voluntary society provided a key response to the challenges of poverty. Leading campaigners such as the Earl of Shaftesbury encouraged the formation of a wide range of *local voluntary societies* to provide, inter alia, schools, hospitals, training and apprenticeships. The key features were local and voluntary – not a part of the machinery of state. Shaftesbury and other campaigners also understood that the market had a role to play, and they pioneered what we would call today micro-finance and impact investing. Shaftesbury himself was a Tory, a Christian, and passionate about the poor and vulnerable. Voluntary provision was, of course, sporadic and of variable standard, but was particularly successful in reaching the poorest sections of society, those who fell beneath the radar of other provision.[5]

‘Poverty is no longer a *moral* problem (around which people unite) but a *political* one (around which people divide).’

Poverty is no longer a *moral* problem (around which people unite) but a *political* one (around which people divide). This prevents some questions from being asked and tends to militate against new and creative approaches. Gertrude Himmelfarb notes, ‘it became a moral principle to eschew moral distinctions and judgments.’[6] She suggests that this ‘de-moralisation’ came about due to the theory that ‘society was responsible for social problems and that therefore society (in the form of the state) had the moral responsibility to solve those problems.’[7]

In order to find and develop solutions to poverty, we need to restore the debate to a moral level. Hence judgements are required over personal responsibility, social policy, the role of the state and the voluntary sector. We need to remember that efficiency is not the preserve of the Right, nor compassion the preserve of the Left.

Poverty and inequality

The confusion that has arisen between 'poverty' and 'inequality' potentially harms the generally desired outcome of relieving poverty. The poverty charities have bought into the concept of *relative poverty*. The consequence has been not only the politicisation of poverty but also the politicisation of charity. So, for example, the Joseph Rowntree Foundation defines poverty as follows:

When we talk about poverty in the UK today we rarely mean malnutrition or the levels of squalor of previous centuries or even the hardships of the 1930s before the advent of the welfare state. It is a relative concept. 'Poor' people are those who are considerably worse off than the majority of the population – a level of deprivation heavily out of line with the general living standards enjoyed by the majority of the population in one of the most affluent countries in the world.[8]

The usual definition is 60 per cent of median income. In other words, *income inequality* is the driving force.

If absolute poverty is a moral question, then relative poverty is a political one. The losers are the poorest in society. If the concern is entirely with the 'bottom 20 per cent', say, then there are three consequences. First, the emphasis on the relative may actually disguise real abject, soul-destroying absolute need at the bottom of the segment. Second, excessive concern with relative incomes will inevitably lead to an enhanced redistributive role for the state. Third, the greater the weight given to relative need the less focus there is on the reasons for poverty and the exercise of moral responsibility and judgement both in its cause and its solution.

The necessity of economic growth

Too much of the debate about poverty takes place out of context. It is impossible to reflect on poverty, its causes and solutions without an appreciation of the role of the market, the creation of wealth, economic growth and trade.

Economic growth is a contested area. Richard Heinberg asserts: 'From now on, only *relative growth* is possible: the global economy is playing a zero-sum game, with an ever-shrinking pot to be divided among the winners.'[9] However, without the wealth creation generated by the market, which leads to economic growth, it is impossible to deal effectively with issues of poverty and social welfare irrespective of the policy prescriptions: 'higher per capita income is strongly correlated with some undeniably important factors, such as longer life expectancy, lower incidence of disease, higher literacy and a healthier environment.'[10]

To turn to the United Kingdom by way of example, economic growth, measured as GDP per capita in international dollars – hence measuring comparative purchasing power – grew 19 times from 1700 to 2008.[11] Hence there 'is much evidence that economic growth in recent decades has delivered substantial improvements in living standards'.[12] This pattern of economic growth, wealth creation, adding to the production of goods and services is an essential prerequisite for dealing with poverty.

The need for a market economy

The most effective mechanism for achieving such economic growth is the market economy. As Michael Novak notes:

Of all the systems of political economy which have shaped our history, none has so revolutionized ordinary expectations of human life – lengthened the life span, made the elimination of poverty and famine thinkable, enlarged the range of human choice – as democratic capitalism.[13]

He adds that his definition of democratic capitalism is 'a predominantly market economy; a polity respectful of the rights of the individual to life, liberty and the pursuit of happiness; and a system of cultural institutions moved by ideals of liberty and justice for all'.[14] The evidence for the positive impact of the market on poverty reduction is insurmountable. Extreme poverty has fallen.[15]

'... the market system and economic growth are both necessary conditions for the relief of poverty.'

Related to the argument concerning the market and growth is the principle of trade. The market brings buyer and seller together, who trade, to mutual advantage, at the agreed price. William Bernstein tells the extraordinary story and history of trade and the overwhelming mutual benefit humanity has gained from the principle of trade: 'World trade has yielded not only a bounty of material goods, but also of intellectual and cultural capital.'[16] Hence a reasonable conclusion to draw is that the market system and economic growth are both necessary conditions for the relief of poverty, irrespective of decisions over specific policies. These basic points are lost all too frequently.

However, if the market and growth are *necessary* conditions for the relief of poverty, are they *sufficient*?

The market is an efficient mechanism, but it is not perfect. There are problems of monopoly, oligopoly, price fixing and the fact that the market is populated by individuals who are themselves not perfect, but flawed. In the same way that the benefits of the market cannot be ignored, neither can its imperfections. Similarly, economic growth may accrue unevenly. Thus the market may lead to inequalities. Does that matter?

Problems of inequality

There are wide disparities globally in income distribution. The Gini coefficient is the generally accepted standard measure of inequality. It uses a scale of between 0 (everybody has an identical amount of income) and 1 (all the income is owned by one person). In respect of the UK, the Gini coefficient increased through the 1980s (note that the very large reduction in the top rate of income tax inevitably contributed to this rise). From the 1990s onwards the co-efficient stabilised and has since declined slightly. So, for example, in 1979 the Gini coefficient in the UK was 0.274; in 1990, 0.368. However, from 1990 to 2013 we have seen a high of 0.362 in 2001/02, with a modest decline – albeit with fluctuations – to 0.332 in 2012/13.[17]

So in the aggregate, inequality has fallen in the UK over the last 25 years.

However, what the Institute of Fiscal Studies has shown by comparing ratios of different income percentiles is that whereas the ratio of the 90th to the 50th and the 50th to the 10th percentiles has remained largely stable, that of the 99th to the 90th percentile has, albeit with some quite dramatic fluctuations, increased significantly.[18] Hence whereas overall there is stability, the top 1 per cent have pulled away. The income level required to be in the top 1 per cent is £150,000 per annum.[19] More recent government policy has actually targeted the most wealthy – it will be interesting to see what impact, if any, this has on the Gini coefficient.

In any event, one can almost hear the clatter of hooves on the cobbles as familiar hobby horses from the Right and the Left canter out of the stable door.

'The acceptance of individual moral responsibility for work, for income and for welfare within families and communities is an essential starting point.'

The question is, does it matter?

In reality there is a tension. If too much emphasis is placed on inequality, and hence on relative poverty, there is the potential danger of loss of focus on those most seriously in need because of an unhealthy obsession with the top 1 per cent of income earners. This is particularly the case if the potential for an increased tax-take is limited – as suggested by the Laffer Curve, which measures tax rates against total tax-take (though politicians and economists will argue over the exact position on the curve). The encouragement of the middle class, of entrepreneurship and SMEs can and will play a significant part in spreading the aggregate economic growth.

There are, however, negative consequences to inequality, and in the case of extreme inequality these factors may be seriously damaging. Inequality may lead to a loss of opportunity as well as inequality of output. The ability to access justice, constitutional rights and indeed welfare services more generally can be seriously compromised by significant income inequalities.

There is, however, a level of dishonesty in debates around welfare. The assumption that the prime objective is to 'reduce the gap' or reduce inequalities is a political argument that misses the point about the essential purpose of welfare provision; that is, not to achieve equality but to ensure that poverty is defeated.

Poverty and moral responsibility

Poverty and moral responsibility are closely linked. Gertrude Himmelfarb's argument is that since welfare and poverty were 'de-moralised', the responsibility for the resolution of the problem moved to society or the state. This issue of personal responsibility, its meaning, extent and consequences is essential to any coherent discussion of social welfare and the defeat of poverty.

Historically there was a very close correlation between local, voluntary provision, the exercise of judgement, and moral responsibility on behalf of both provider and recipient. The removal of notions of personal responsibility has been disastrous for an effective system of welfare. This is not just about 'assessing the feckless' – the issue of what to do with those who fall through the safety nets for any reason remains in a civilised society. The issue of personal responsibility goes much deeper and indeed wider. Thus Ruth Porter has commented: 'We have stripped people of part of their dignity, forcing them to look first to the state before looking to those around them.'[20]

The move from a contributory to a means-tested approach was a further factor that encouraged dependency by reducing incentives either to work or to avoid welfare dependency. To avoid such undesirable consequences any effective welfare system:

requires participants to maintain necessary levels of personal diligence (i.e. work and saving) even though they know they will probably not benefit from them. It requires them not to exaggerate their level of need, even though they would probably benefit from doing so ... In short, it requires sufficient and sustained virtues of diligence, honesty, and trust to nullify or overcome the free-rider problem.[21]

This encapsulates both the importance of personal responsibility and the levers within the present welfare system that push against it. Any debate on the future of welfare needs to engage with this inherent tension within the system. Indeed, for the critics of the market, that the market is flawed and subjected to greed, this is a salutary reminder that the welfare system suffers from the same problems.

Moral responsibility is both personal and communitarian. However, the acceptance of individual moral responsibility for work, for income and for welfare within families and communities is an essential starting point without which any form of state provision will become burdened by bureaucracy and failure.

'Social enterprises have become one of the new modes of business organisation for social purposes.'

The responsibility to work requires an understanding of work. For some, work is drudgery and wages are a reflection of subjection. In these circumstances the attraction of welfare will be significant. Deirdre McCloskey points out that work prevents poverty – 'wages make people better off than the even more terrible alternatives.'[22] Indeed, she adds that the regulation of wages and excessively protective policies, by preserving old jobs and preventing the creation of new jobs, has the effect of preserving poverty.[23]

How then do we resolve the tensions between 'protection' (minimum wages), 'subsidy' (tax credits), personal responsibility and protection against poverty? There are, of course, a variety of answers that have been offered, but a move away from the rhetoric of inequality to one of relieving need and protecting the most vulnerable within a context of personal responsibility might at least allow for an honest debate.

Re-energising the market

How might the market be re-energised for the modern age in the quest against poverty?

Social entrepreneurship

Social entrepreneurship is not new. Indeed, the sector is not without its problems. Professor Alex Nicolls suggests that 'social entrepreneurship is best understood as a multi-dimensional and dynamic construct moving across various intersection points between the public, private, and social sectors.'[24] So one consequence of this is a wide variety of organisational structures and funding models. However, the real opportunity comes from recognising that 'what is new and most distinctive about social entrepreneurship is not the particular organizational forms that are used but the entrepreneur's continual pursuit of greater social or environmental impact.'[25] The generation of social value, once accepted, generates its own questions of measurement and metrics. Indeed, the very meaning of 'social' is contested space.[26]

Social enterprises have become one of the new modes of business organisation for social purposes. The most effective social enterprises use a variety of means of capital, including venture capital and private equity. In addition there will be robust governance structures, highly skilled individuals, diverse partners and a clarity of social vision. In this way it is possible to harness significant funds to achieve social purposes through the application of business skill and commercial objectives. These enterprises will increasingly make use of commercial income streams and provide a return to investors. The larger the scale, the greater the opportunity for external finance. Smaller enterprises may also be very successful in local areas but carry the danger of an overdependence on grant finance and hence may display the characteristics of a traditional charity. The point is diversity, capital, scale and social objectives. Thus, 'money and mission are intertwined like DNA in the social enterprise, yet they are not always equal partners.'[27] There are a variety of models, from the embedded model (the enterprise and social operations being interlinked) to the external (external profit-making enterprises service social programmes). The outcomes can be as dynamic in the contemporary market as they were historically.

Social impact investing

Social impact investing is effectively a new asset class in which investment funds are harnessed for capitalist return in investments with social objectives. This means of investing is a scaled-up version of the historic model, which was essentially small and local. Hence it enables larger-scale investment on a global scale for social objectives. So these funds take an enterprise approach to poverty alleviation by building commercially sustainable companies that create jobs and empower the poor to improve their livelihoods. They adopt the principles, discipline and accountability of venture capital investing but with a sub-venture capital rate of financial returns.[28]

The full story is told elsewhere, but one example is the Kuzuko Game Reserve in South Africa. Here, as well as the rehabilitation of land, conservation and eco-tourism, the game reserve provides employment, higher than average wages, proper contracts, training, participation in profits and investment in housing. So precisely like Lord Shaftesbury's efforts, these 'projects help the poor with both employment as well as capital building ... either intellectual (through education and skills training) or asset (ownership of a taxi, a cow or share equity)' and are 'critical to poverty alleviation'.[29] They require investor confidence, expertise in both management and investment, long-term commitment and political stability. We should not underestimate the impact and the ability of such funds to harness capital for good on a global scale.

Corporate structures and objectives

The corporate social responsibility (CSR) reports of public companies seem, rather like audit reports, to get longer and longer in order to say less and less. That is not to argue that community involvement, philanthropy and social concern by companies large and small are other than good things. However, the traditional approaches to CSR emphasise the disconnection between a company's core purposes and its ability to deliver wider social objectives. Section 172 of the Companies Act 2006 requires a director to promote the success of a company for the benefit of its members as a whole. This has given rise to the claim that directors must act to maximise shareholder value. Section 172 adds that directors must 'have regard to' various other matters including long-term decision-making, the interests of its stakeholders, ethical behaviour and the impact of its operations on the environment and community. It is doubtful whether section 172 requires shareholder value maximisation even without the sub-clauses. However, the use of 'have regard to' effectively lowers the priority given to the more inclusive vision.

This has led to other suggestions about how corporate structures can best serve wider social objectives. Business, social values and community do not necessarily stand in opposition to each other. The history of the Quaker businesses bears ample testimony to this.[30] The problem has occurred as ever greater distance has emerged between ownership and control. As Professor Colin Mayer has pointed out, the effect has been to weaken both governance and accountability.[31]

How, then, might the business community respond in terms of corporate structure? Two particular suggestions are worth noting in the space we have available. Colin Mayer advocates the 'trust company' in which a second board (the trustee board) exists to oversee and ensure the long-term stewardship of the company's core *values* over time. This can be reinforced by differential voting rights for shareholders, such that those who have held investments in the company for more than ten years carry greater weight. Another recent approach has been that of the 'B corp' movement. A 'C corp' – in US law, but the point of principle remains – is a standard corporate structure in which the company has separate legal personality. A 'B corp' is a corporation that embodies specific social objectives into its articles of association or other constitutional documents. In the UK this involves adopting the general legal framework of section 172 of the Companies Act 2006 but specifically including societal and environmental benefits and a requirement that the interests of different stakeholders be treated equally.

Challenges and lessons

Poverty is scandalous. The causes of poverty are complex and that in itself means that diverse solutions are likely to be the most effective.

'We cannot … escape from the conclusion that work and enterprise lie at the heart of combating poverty.'

Poverty is a moral issue. The compartmentalisation of life into different strata – family, business, society – has essentially privatised morality. This is the conceptual reason why solutions to the problem of poverty have proved so elusive. It is essential to reverse this trend, but to do so will challenge vested and political interests. We must recover the ability to debate in the public square the morality of poverty, to exercise moral and public judgements – about responsibility, work, incentives and welfare.

A new social contract is needed that recognises that business, welfare and government are all needed to collaborate together in order to enhance the values that underpin society. The challenge to the Right is to recognise that those values are not merely individual but social. The challenge to the Left is to recognise that government cannot be the sole answer and may even hinder the achievement of our shared values, and that the market rather than being inimical to social welfare can play a central role. So here are a few final thoughts:

- *Work and enterprise are essential to defeating poverty*

We cannot, and indeed should not, escape from the conclusion that work and enterprise lie at the heart of combating poverty. Incentives to work are central; as are incentives to avoid dependency on welfare. There are, of course, debates to be had about the quality and nature of work and employment. However, the over-emphasis on relative poverty and inequality devalues the central role of paid employment as the essential means of reducing poverty. In the same way, policies that encourage business and enterprise lie at the heart of any response to poverty.

- *The tax system should incentivise social objectives in the market*

The government has a role to play but its size, complexity and cost mean that government cannot be solely relied on, and nor should it be. Social objectives in private-sector philanthropy and investment should be incentivised through the tax system. In the same way that the Enterprise Investment Scheme provides tax incentives to start-up companies, so similarly should investment in social enterprises and social venture capital also be encouraged. The removal of corporation tax from SMEs with social objectives (so that trading income streams are not taxed), VAT relief, together with investment and employment incentives could be transformational in encouraging social entrepreneurship.

• *The protection of the vulnerable is essential in a civilised society*

None of this should take us away from the proposition that the protection of the vulnerable is a basic moral value in a civilised society. This will require a clarity of public moral intent, the harnessing of resources, the collaboration of faith and other communities and a willingness to debate the real issues.

• *New asset classes and ownership structures should be encouraged*

The development of new asset classes for social venture capital, of new and diverse models of social entrepreneurship and of new corporate structures for commercial companies should be advanced and encouraged. The maximisation of *shareholder value* should perhaps be replaced by the idea of the maximisation of *stakeholder values*. In the same way that the introduction of limited liability enabled the broadening of ownership and the raising of equity capital, so we must be willing to enable and develop new structures for the modern age that give reality to long-term value and to social and environmental concerns.

In short, the issues of social welfare are so important that they cannot be left either to government, to the market, to the community or to the individual. However, we cannot continue with the current unsustainable models and the lack of proper debate. The moral debate must be restored to the centre of the stage, and that means a moral debate about poverty, its causes, work, welfare, incentives, personal and family responsibility and both the role and limits of government. After all, the future reduction or elimination of poverty depends on the clarity of the moral debate.

Notes to Chapter 1

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Chapter 2

A welfare society

Brian Griffiths

THE WELFARE STATE

A market economy can be a harsh reality for those who work in it. A fall in the world price of a commodity can lead to the closure of a business. A new technology can make jobs redundant. A financial crisis in Asia can lead to rising unemployment in Europe. Economic cycles appear to be a lasting characteristic of market economies. When compounded by problems such as industrial injury, disability and physical and mental illness, a market economy can prove a challenging environment.

It is because of this that ever since the Industrial Revolution there have been moves to protect the vulnerable from the uncertainties of markets and compensate them for its worst effects. In the nineteenth century, voluntary organisations such as friendly societies, trade unions and savings institutions provided services to help families be self-supporting. They were not charities. These were clubs that people joined and to which they paid in contributions, which they could then draw out at a time of need. In the early twentieth century the UK government introduced a compulsory national insurance scheme for all working people, which provided retirement pensions. The government of Clement Attlee (1945–50) extended state provision and laid the foundations for the modern welfare state, which won general approval from the public.

Seventy years on the picture looks very different. The modern welfare state has lost public support and faces a crisis of legitimacy. The 2015 edition of the official government survey 'British Social Attitudes' reports that public support for welfare spending has been in long-term decline. Those supporting the statement 'government should be spending more on welfare benefits for the poor' fell from 61 per cent in 1989 to 30 per cent in 2014.[1] Within this, pensions and disabled people were a priority, unlike benefits for single parents and unemployed people.

One reason for the loss of public support is that welfare spending fails to reward hard-working people who have contributed to the system and subsidises a minority who have not. A few days after the summer budget of 2015, which aimed to move the UK from a high welfare society to a lower welfare economy, a national newspaper published a letter that expressed the sentiment of many:

Sir, I have worked hard and paid taxes for 45 years, and apart from child allowance, never qualified for tax credit. I have brought up three children, all of whom have been through university. I have paid off my mortgage and have no debts, as I live within my means. My gross pay is £26,000. Why should I pay for people to receive more through social security payments than I earn?

'The modern welfare state has lost public support and faces a crisis of legitimacy.'

Some years before this, the journalist John Humphrys of BBC Radio 4's *Today* programme spent 12 months travelling around the country researching the state of welfare in Britain. He claimed in the resulting late-2011 BBC Two television programme that a culture had grown up in which people had a sense of entitlement that the state owed them a living. His overall conclusion was that:

In my decades of reporting politics I have never before seen the sort of political consensus on the benefits system that we seem to be approaching now and our poll suggests the politicians are reflecting a changing public mood.[2]

The same sentiment was echoed in a controversial Channel Four television series, *Benefits Street*, which documented the lives of several residents in James Turner Street in Winson Green, Birmingham, in which it was alleged that 90 per cent of residents claimed benefits.

These views have been confirmed by opinion polls.[3] One that was conducted in 2004 for the centre-left think tank IPPR, and which is fairly representative, found that 78 per cent of people surveyed agreed with the proposition ‘the system does too little for people who have contributed’ while 76 per cent agreed with the statement ‘it is too soft on people who could work but don’t’. This was found to be not simply a right-wing view, because 75 per cent of Labour voters who were polled lined up for the first view and 65 per cent for the second.[4]
A second reason welfare has lost support is because of the dependency culture it has created. More than 20 million families in the UK are dependent on some kind of welfare benefit (two-thirds of all families), of which pensioners account for 8.7 million. For 9.6 million families, benefits account for more than half their income. Some people face little incentive to return to work because of the loss of benefits. For an unemployed person with several children, entitled to unemployment benefit, housing benefit, child tax credits and free prescriptions, net take-home pay from employment may not be much greater than income from benefits. Today there are 3.6 million households in the UK in which nobody of working age is in paid employment but dependent entirely on social security. In some housing estates three generations of families have never worked. One million people have been on incapacity benefit for over a decade. Housing benefit has increased from £9 billion in 1990 to roughly £25 billion at present. Christian Guy, formerly the director or the Centre for Social Justice, captured the spirit of William Beveridge and put it crisply: ‘the welfare state should be a life-boat not a cruise ship.’[5]

A third reason social welfare is a problem is cost. Expenditure on social security payments, including pensions, is running at £220 billion per year. Britain has 1 per cent of the world’s population, generates 4 per cent of the world’s income and pays 7 per cent of the world’s welfare spending. In 1980, welfare benefits paid to people of working age amounted to 8 per cent of all public spending. By 2014 that figure had run to 13 per cent. The original tax credit system, which was introduced in 2003, cost £1.1 billion in its first year. Today it costs £31 billion per year.[6]

The welfare bill has grown like topsy and proved a nightmare for politicians to get under control. In his 2015 summer budget speech the Chancellor of the Exchequer quoted Frank Field, a Labour MP and chairman of the House of Commons Work and Pensions Select Committee, as well as one of the great authorities on the subject, as saying that the present system was simply 'not sustainable'. More surprising perhaps was that soon after, Harriet Harman, the interim leader of the Labour party, told leadership candidates not to oppose welfare cuts because the electorate had twice rejected a Labour manifesto that stated that welfare spending would not be cut.

A fourth problem is that the welfare budget is not perceived as addressing the real causes of poverty. This is partly because of the way poverty is defined and measured. The present official method of measuring poverty is closely connected to the original approach taken by Charles Booth and Joseph Rowntree at the beginning of the twentieth century. They were meticulous in their research and through it they wished to determine the income level that enabled families to achieve a minimum decent standard of living. Those families with incomes below that level were categorised as poor while those above were not. The Child Poverty Act 2010 defined poverty as households with income below 60 per cent of median income. According to this definition, one in five of the UK population today live in poverty.

'Welfare provision has become synonymous with a hugely centralised and complex system.'

This approach suffers from three weaknesses. First, it leads to some curious results. During the recession that followed the financial crisis, the number of children living in poverty fell, not because they were better off but because median incomes declined. Similarly a small rise in the state pension will increase average income and with it the number of children living in relative poverty. Second, it is a statistic that measures inequality not poverty. It says nothing about the percentage of children who have failed to meet standards of literacy and numeracy in schools, the percentage of children in workless households, the number of people who suffer from hunger and so on. Third, it fails to shed light on more searching questions regarding the causes of poverty. Why do certain children suffer from a lack of educational achievement? Why do some parents have poor parenting skills? What is the impact of family breakdown on poverty? What can be done to break the cycle of children living in poverty today growing up to be parents living in poverty tomorrow?

A fifth and final reason the present welfare system has lost public support is because of its impersonal nature. Welfare provision has become synonymous with a hugely centralised and complex system of cash payments from central government to individuals. In the friendly societies and trade unions of previous generations there was a personal element involved. Those who collected subscriptions from members and ensured they were paid when need arose had a personal relationship with them. They knew of their circumstances. They lived in their neighbourhoods. They were part of their communities. Welfare payments today have become just another transaction. As a result, the growth of a highly centralised welfare state has been at the expense of those mediating structures that involved personal participation in a local community and typically emphasised an ethos of work, self-support and saving.

The overall result of this is that the welfare state today has lost public support because it is centralised, impersonal, bureaucratic, complex and disjointed.

And who is my neighbour?

In many countries with a Christian tradition, such as Britain, the debate on welfare has deep roots in a Christian understanding of the dignity of the human person, responsibility of caring for the vulnerable and improving the lot of the excluded and poor, and the importance of work. Many friendly societies of the nineteenth century had a religious foundation. The first labour exchange was set up by the Salvation Army in Upper Thames Street in London in 1890. The term 'welfare state' was first used by William Temple, Archbishop of Canterbury, in the early 1940s.

The parable of the Good Samaritan (Luke 10.25–37) is one of the most compelling stories Jesus ever told and relates directly to helping people in need. The context was a question addressed to Jesus by a lawyer who was a recognised expert in interesting Jewish laws that Moses had set down in the Torah. 'Teacher, what must I do to inherit eternal life?' (v.25). In other words, how should we live now to qualify for life in a future world? Jesus responded with further questions, 'What is written in the law? What do you read there?', to which the lawyer answered with two quotations from the Torah, 'You shall love the Lord your God with all your heart, and with all your soul, and with all your might' (Deuteronomy 6.5) and 'your neighbour as yourself' (Leviticus 19.18). Jesus acknowledged this as the right answer and added 'do this and you will live'. Quick to look for a loophole and to embarrass Jesus, the lawyer asked a further question, 'And who is my neighbour?', something that was a highly disputed issue at the time.

The story relates to a man travelling from Jerusalem to Jericho who was attacked by a gang of robbers who took his clothes, beat him and left him naked and apparently half dead. By accident a priest was travelling down the same road, saw him but consciously walked by on the other side. Similarly a Levite, one of the administrative staff employed at the Temple in Jerusalem, was also travelling along the same road; he saw the victim but again avoided contact with him. Finally a Samaritan, a foreigner, a heretic and a sworn enemy of the Jewish people saw him, had compassion on him, gave him first aid, disinfected and bandaged his wounds, lifted him on to his donkey and led him to an inn. The following day he gave the inn keeper two silver coins with the request 'Take good care of him. If it costs any more, put it on my bill – I'll pay you on my way back.' Jesus then questioned the lawyer as to which of the three did he think was neighbour to the victim. The lawyer replied the one who treated him kindly, to which Jesus responded 'go and do the same'.

This was a realistic story. The winding road down from Jerusalem to Jericho, roughly 17 miles and through rocky and barren countryside, was known to be dangerous because of frequent attacks. Any parable, however, leaves a great deal to the imagination, and this is no exception. The victim was most probably an Israelite. The priest and Levite might not have been bad people. They might have thought that because he looked as if he was half dead there was little they could do. Or they might have thought they had insufficient knowledge to be able to help him. Or they might have thought the robbers were still nearby and would pounce on them next. Or they might, as professional religious people, have had qualms about defiling themselves ritually because of contact with blood and a dead body. What is not left to the imagination is that they passed by on the other side of the road.

'Can the parable of the Good Samaritan help us in thinking about welfare policy and the welfare society?'

The Samaritan's response was different. He saw him and went to his aid. His response was more than empathy, simply identifying with him mentally. The import of his response is not adequately conveyed by expressions such as 'he took pity', 'he was moved', 'he had compassion'. The Greek verb suggests something much stronger. It was as if he was struck by a bolt of lightning that left him completely shaken. His response was visceral rather than rational. He felt compelled to act. He committed himself to helping the wounded man regardless of the danger involved, and in the way he did it was generous both with his time and his money. The point of the parable is that it turns the lawyer's question on its head. The Samaritan did not ask 'Who is my neighbour?', hoping to be able to divide the world into neighbours and non-neighbours. He found himself asking a more searching question, 'To whom am I a neighbour?' For the lawyer the term 'Good Samaritan' was an oxymoron. To discover that the wounded man had been helped by a racial enemy, someone from outside of the community, was not just a surprise but a scandal.

'We as individuals, and we as members of a society, have a moral responsibility to care for those in need.'

We all in one way or another aspire to be a Good Samaritan. By asking the question 'Who is my neighbour?' we are seeking the timeless quest for a loophole to divide the world into neighbours and non-neighbours. The lawyer was searching for a clear definition that set a precise boundary. Thomas Walter Manson suggests that the question asked by the lawyer is unanswerable.

For love does not begin by defining its objects: it discovers them. And failure in the observance of the great commandment comes not from lack of precise information about the application of it, but from lack of love. The point of the parable is that if a man has love in his heart it will tell him who his neighbour is: and this is the only possible answer to the lawyer's question.[7]

Can the parable of the Good Samaritan help us in thinking about welfare policy and the welfare society? Before we explore this we should remember that there was in Israel at the time of Jesus a system of social welfare: every three years one tenth (tithe) of that year's annual produce was to be given and stored as a source of help for the poor. This was part of a much larger welfare society in which the laws relating to social and economic life were based on Jewish religion, ranging from weights and measures to social provision.

Social welfare provision in the political economy of ancient Israel was comprehensive, mandatory and personal. It was a duty of care charged to each member of the community for the welfare of the poor, the widow, the orphan, the homeless and the stranger. It was complementary to a social programme of welfare provision enabling all to share in the gleaning of the annual harvest, to call on the social fund created from the triennial tithe and to have on the Sabbatical year debts cancelled – though it is doubtful whether this system was ever implemented as such.

The spirit with which welfare was to be provided was generosity.

If there is among you anyone in need … do not be hard-hearted or tight-fisted towards your needy neighbour. You should rather open your hand, willingly lending enough to meet the need, whatever it may be. Be careful that you do not entertain a mean thought, thinking, 'The seventh year, the year of remission is near', and therefore view your needy neighbour with hostility and give nothing … Give liberally and be ungrudging when you do so. (Deuteronomy 15.7–10)

What lessons can we draw from our Judaeo-Christian heritage in thinking about welfare? First, we should start by stating the obvious, which is that we as individuals, and we as members of a society, have a moral responsibility to care for those in need. The primary reason for reforming social welfare is not to help HM Treasury to balance the books, tackle the estimated £1 billion benefit fraud or deal with 'scroungers' and 'benefit tourists'. It is to shape a society in which those who are elderly, disabled and vulnerable are cared for and those who can work and are able to save are incentivised to do so. As a society we have responsibilities to those less fortunate than ourselves.

Second, we need to distinguish between a welfare state and a welfare society. A welfare state administers the provision of benefits provided by the state and paid for by taxpayers. By contrast, a welfare society has three components: welfare provided through the state; welfare provided through a range of voluntary and charitable organisations, including religious institutions; and neighbourliness, namely welfare provided by people caring for individuals or families suffering from loneliness, isolation and deprivation in the communities in which we live. Perhaps the most basic of all the elements of a welfare society is the family, in which children are shown love, cared for and taught the values that are important in life, which is why public policy aimed at strengthening family ties is so important.

Over recent decades the culture of our society has become more individualistic and less public spirited. The bonds that bind people together in civil society have loosened. The British Attitudes Survey has documented the reduction in the number of people who wish to be actively involved in their communities – whether as volunteers, school governors, members of a Neighbourhood Watch Scheme or leading Scouts and Guides. The great challenge in strengthening our welfare society today is how to revive the declining sense of mutual responsibility in life and reverse the general loss of 'neighbourliness'. If the parable of the Good Samaritan has one overriding message it is that people become involved with others when they are moved to have genuine compassion for those in need. This is not something governments can easily effect. It may be prompted by a television news item, a chance meeting, a front-page newspaper photo or the plight of a friend. There is a third leg important to the Christian understanding of social welfare, and that is the importance of work. The significance of work derives from each person bearing the divine image. The nature of God is to create and work, and in this we as creatures reflect the creator. A job well done is the satisfaction that derives from work, whether paid or unpaid. Work allows each person to express their talents and personality. It is natural for men and woman and from it we derive not only satisfaction but a reservoir of self-worth and dignity. Work in itself is rewarding and a service to God. It is because of this that involuntary unemployment is an evil. It is something alien to our nature. We want to work and yet the jobs are not there. The same is true of benefit dependency, in which the state has created incentives that make work unattractive. Not working in this situation is not only a source of long-term poverty, it undermines self-worth and ambition and leads to depression and illness.

Thinking through the principles

People have put forward many different principles as the basis for welfare reform: compassion, justice, reciprocity, contribution, contracts, mutualisation, participation, penalisation and localisation. Which should guide us?

One principle is that of contribution and reciprocity. With the exception of the elderly, disabled and vulnerable, social security should be a safety net in the way proposed by Beveridge in the 1940s, rather than some vast merry-go-round drawing increasing numbers of benefit recipients into its orbit while at the same time requiring them to pay indirectly for their additional benefits through general taxation.

The starting point of Beveridge's proposals was that in a free society persons who could work had responsibility to earn an income with which to make provision for themselves and their dependants:

'Management of one's income is an essential element of a citizen's freedom.'[8] He claimed that people had come to regard thrift as a 'duty and pleasure'.[9] John Maynard Keynes had proposed a solution to the mass unemployment of the 1930s and Beveridge believed that a return to full employment was a realistic prospect in the post-war years, which turned out to be correct.

From time to time people would suffer a loss of earnings because of unemployment, injury and sickness, as well as having extra outgoings at times of birth, death and marriage. To deal with this Beveridge proposed a national or social insurance system in which risks were pooled and underwritten by the state. He rejected a system of voluntary private insurance much as we have today for cars, homes and travel. The system was compulsory for all working people. Each paid in flat-rate contributions and when occasion arose each was paid out flat-rate benefits. There was to be no means testing.

'It is important that the worlds of welfare … and enterprise … work together rather than against one another.'

This structure rested on key judgements. First, benefits should be paid out in return for contributions, rather than free allowances from the state, which 'is what the people of Britain desire'.[10] He made it abundantly clear that social security as envisaged in his report was not a plan 'for giving to everybody something for nothing'.[11]

Next, payments were to be made into a national Fund. If the resources of the Fund proved inadequate, contributions should be increased. The reason for creating a Fund rather than paying for the scheme through general taxation was to make it clear that benefit payments did not come from a bottomless purse.

A future key judgement was that social insurance was intended to be a minimum:

The State in organising [social] security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.[12]

Another principle of welfare reform should be to tackle the root cause of long-term poverty by focusing on the home environment and the early years in order to enhance the life chances of children. For the past one hundred years, by contrast, the focus of removing poverty has been providing more money to less well-off families. This is not unimportant. Soon after becoming Prime Minister in 2010, however, David Cameron commissioned the Labour MP Frank Field to undertake a major rethink of the causes of poverty in the UK, the case for reforming the way poverty is measured and the way a child's home environment affects their life chances. Frank Field has spent a lifetime working in the field of welfare provision, both inside and outside of parliament and as a minister in the Treasury when Tony Blair became Prime Minister.

In his report he claimed that research suggested that a person's success in adult life could be predicted by the level of cognitive and non-cognitive skills they possessed on the first day of school.[13] Children who arrived at school in the lower range of ability tended to remain there. More than money income, research emphasised that the factors that mattered for enhancing a person's life chances were a healthy pregnancy, good maternal mental health, secure bonding with the child, love and responsiveness of parents along with clear boundaries, and opportunities for a child's cognitive language and emotional development. Good-quality services such as healthcare, children's centres and childcare also mattered. The key conclusion of this work was that good parenting was critical to improving the life chances of children when they reach adulthood.

The policy recommendation of this approach is to strengthen support for parents through the Foundation Years 'from conception to age five', by providing high-quality integrated services across the board, but especially for those from low-income families. As a result, a child from a low-income family but brought up in this environment has every chance of succeeding in life. Perhaps more surprisingly, focusing on the Foundation Years is a better way to achieve a reduction in income inequality.

Finally, it is important that the worlds of welfare (caring, community, neighbourliness) and enterprise (entrepreneurship, aspiration and reward) work together rather than against each other. That is why a growing economy that provides jobs is far better than a stagnant economy as the backdrop to welfare reform. It is also why reducing the government deficit and reigning in public borrowing is a necessary step to achieve it.

Notes to Chapter 2

[1] 'British Social Attitudes 32: Key Findings', London: NatCen Social Research, 2015, p. 3 – www.bsa.natcen.ac.uk/media/38973/bsa32_keyfindings.pdf.
[2] John Humphrys, *The Future State of Welfare*, 2011, BBC Two.
[3] Ed Cox, 'Between Priests and Levites: Putting Relationship into the Heart of the Welfare System', in Nick Spencer (ed.), *The Future of Welfare: A Theos Collection*, London: Theos, 2014, p. 102.
[4] Cox, 'Between Priests and Levites', pp. 102–3.
[5] Christian Guy, 'Welfare, But on What basis?', in Spencer, *Future of Welfare*, pp. 43–51.
[6] Guy, 'Welfare'.
[7] T. W. Manson, *The Sayings of Jesus*, Cambridge: Cambridge University Press, 1931, p. 308.
[8] The Beveridge Report, 1942, paragraph 21 – www.sochealth.co.uk/national-health-service/public-health-and-wellbeing/beveridge-report.
[9] Beveridge, paragraph 21.
[10] Beveridge, paragraph 21.
[11] Beveridge, paragraph 455.
[12] Beveridge, paragraph 9.
[13] Frank Field, *The Foundation Years: Preventing Poor Children Becoming Poor Adults – The Report of the Independent Review on Poverty and Life Chances*, December 2010 – www.frankfield.co.uk.

Chapter 3

Welfare and the common good

Maurice Glasman

First, it is always an honour to be invited by Lord Griffiths to anything and I always try to accept. He has been a true friend to me since I entered the House of Lords; that is a rare gift to be given and I treasure it.

It is all the more precious as we are of different religions, different parties, and if my younger self could glimpse me saying these words to the head of the policy unit under Margaret Thatcher and a vice president of Goldman Sachs, then there would be a scandalised disbelief. Life itself is the teacher and I am grateful for the lessons it has taught me. Not the least of these, which is important in the discussion of poverty, is the inheritance of Catholic Social Thought, with its stress on vocation and value, on a balance of interest and relationships; a tradition that also understands that we are fallen and capable of vice as well as virtue, a narrow selfishness as well as self-interest broadly conceived. It is also a tradition that does not think that the free market created the world. There is something inherited in that as well.

It also is fond of paradox, something that sounds wrong but is right, and not the least of these paradoxes is that while there is no alternative to the market, the market is no alternative. It creates unprecedented wealth but also an unprecedented poverty – a poverty of inheritance that leaves people without assets and in debt in a monetised economy. That is a more complex form of poverty in which access to common lands is forbidden through enclosure and there is little participation in a common life; a world in which you are on your own in a radically new way, in which it is your responsibility to find your way with no inheritance. Progress for many people is seen as a systematic dispossession. This is because capitalism poses a radical threat to the notion that human beings and nature, the substance of creation, are anything other than commodities. It tries to exploit both through creating factor markets in labour, land and food, in things that are obviously not created as commodities to be bought and sold. This, however, is what happens to you when you are in debt, as we see in Greece. Its inheritance is being privatised and it is very unclear out of what the value is to be created. The accompanying tragedy is that the state did not create the world either, and nor were people created as administrative units. Poverty is a problem of a lack of humanity, so we need to look to the restoration of human-scale solutions for its alleviation.

'While poverty is not caused by welfare, it is not eradicated by it either.'

While there is a structural and material aspect to poverty, which is extensively researched, I work with a definition of poverty by enquiring as to whether the monetised essentials of life are affordable on a basic wage. While poverty is not caused by welfare, it is not eradicated by it either. The move towards a living-wage economy is a fundamental one in ensuring that people do not work for their poverty. Outside London, £9.40 an hour is a reasonable amount to live a dignified life. It creates incentives to virtue rather than vice, to work and to be able to fulfil fundamental responsibilities to others through your work. It is a foundation stone of a new consensus built around work rather than welfare, but if we consider poverty to be a discussion exclusively about material possessions or spending power at any given moment, then we will get stuck in static definitions and a tax-and-spend Gini coefficient conversation that has not changed the dynamics of polarisation and the increasing divisions of wealth.

A politics of the common good requires a different way of talking about inequality, welfare and the relationship between the market, state and society in the practice of mutual responsibility and the question of how we care for each other. In this, virtue and vocation, responsibility and reciprocity have to play an important role but the two key and primary concepts are those of inheritance and relationships. This is a way of looking at poverty that asks what we pass on to the next generation, in which the ideas contained within a social contract are changed into the notion of a covenant between the generations. This covenant is orientated towards the safeguarding of creation, a preservation of liberty and democracy within an orientation towards the good of a commonwealth and a common-good that is ultimately to pass on liberty, prosperity, civic peace and a sense of mutual responsibility to the next generation, undiminished and, if possible, enhanced a little bit.

I believe that there is a space to build that common good politics in place of the collectivist and exclusively individualist and materialist alternatives that have dominated politics over the last 60 years. In this a renewed body politic would lessen the administrative penetration of the state through a renewed role for the Church, for universities and vocational colleges, for city councils and business to craft a common good around the strengthening of family life, the place you live in and the ethics of work, with an emphasis on virtue, defined as 'good doing' rather than 'do gooding', the corporation itself rather than corporate social responsibility for example. In other words, a politics in which skilful work is honoured, recognised and rewarded within a system that gives incentives to virtue rather than to vice. A vocational economy if you like.

'One of the successes of the German economy is that vocation is given a central place in the organisation of its labour market.'

Marvin Gaye's question of 'What's Going On?' is logically prior to Lenin's question of 'What Is To Be Done?' What's going on is centralisation of financial and political power, an excluded and estranged population and widespread anxiety relating to how people can fulfil their obligations to their loved ones.

What remains elusive now in the debate around welfare reform is an understanding of relational poverty (how people find themselves isolated and powerless), institutional poverty (a dearth of belonging and participation within institutions that uphold a specific good and practice) and also knowledge poverty (where people are cut off from a tradition of understanding that is intergenerational and related to specific practices).

In terms of the changes that are required in the political economy, there are three essential ones that are required if poverty is to be addressed in practical terms. The first change concerns the establishment of a vocational economy within which apprenticeship and skill are taught, sustained and recognised through democratic institutions that regulate labour-market entry. Reciprocity requires having something to give as well as take, and if you have a vocation then that is a good relational start. One of the successes of the German economy is that vocation is given a central place in the organisation of its labour market. Vocation includes within itself a calling, or something that is appropriate for the person that comes from within, to work that is authentically your own and not defined exclusively by its external rewards or demands but characterised too by internal goods rooted in a tradition of practice. A vocation requires discipline and judgement, good doing, and constrains vice through the concept of good practice, institutionally enforced. Honour, skill, loyalty and dedication are necessary for the preservation and renewal of value, which is judged by other practitioners and not exclusively by the price system.[1] What academics call 'peer group review' is built into the vocational system. It allows for an inheritance to be received, renewed and passed on. It places work, not exclusively as the immediate fulfilment of a task but as something received from the past and orientated towards the future. Vocational institutions valorise labour and promote virtue. The internal goods preserved by vocational institutions are a direct threat to the domination of capital but necessary for its successful reproduction.

We need to address the failures of an exclusively academic framework for further and higher education in which there is tremendous working-class and immigrant failure as well as a lack of skills in the economy. The most important structural changes would be to close down half the universities and transform them into vocational colleges, jointly run by local business, the unions and local political representatives. Vocation would bring intergenerational relationships through the apprenticeship system, also bringing older and retired workers into a constructive relationship with the economy and with younger people. It would establish a tradition of good practice that would address knowledge poverty and bring a sense through which people can earn and belong, in the words of Jon Cruddas.

The second fundamental economic reform that would address the impoverishment of a local inheritance is the endowment of regional banks that are constrained to lend in their area through using part of the bailout. One of the fundamental causes of contemporary poverty is debt and the emergence of usurious financial institutions. Regional banks are a central part of the new institutional ecology in that they resist the centralising power of capital, allow a more stable access to credit for regional and smaller businesses and encourage relationships and reciprocity to constrain the demand for higher rates of return that have decimated the mutual bank sector in Britain. Ten per cent of the bailout should be used to endow these Banks of England through which local people could have access to credit, start businesses and a more humane and locally embedded form of banking could be established.

The third aspect would be corporate governance reform so that workers can exercise a balance of power with capital in the governance of firms. Corporate governance representation for labour addresses the necessity of a form of accountability that does not claim all advantage for one side and that can restrain cheating, greed and avarice in the working life. The specific technique developed within catholic social thought was a form of relational accountability, in which the real physical presence of the workforce on boards required a sharing of information regarding the firm and the sector, a negotiation of modernising strategy that was not set exclusively on terms beneficial to capital.[2] The unilateral pay rises given to themselves by managers could possibly be constrained by the presence of a workforce that could question their legitimacy on the basis of a real internal knowledge of the firm.

It is the absence of relational accountability, the lack of internal constraint on capital and the absence of the labour interest that provide the fundamental explanation of the crash of 2008. The financial crisis was generated by the concentration of capital, a lack of accountability so that money managers could lie, cheat and exaggerate without any specialist interests with knowledge of the internal working of the firm that could challenge them. We learnt that accountability is too important to be left to accountants. It was a crisis of accountability, of a lack of virtue and of 'incentives to vice' in the form of bankers' bonuses and unilateral self-remuneration. It was also a result of the relentless demands for higher rates of return. These turned out to be speculative and fantastical. There was no vocation or virtue in the governance of the financial sector, and the key to its remedy lies in the expertise and interests of labour, who through their representation in the firm could hold the unvirtuous elites to account and bring about the necessary cultural change required to break out of the present malaise. Responsibility and power need to be shared in order to be effectively exerted.

Relationships, reciprocity and responsibility

In terms of welfare reform a similar process of moving away from the unilateral domination of management and towards a balance of interests in the governance of institutions such as schools and hospitals is required, so that their corporate governance is based on a third funders, a third workforce and a third users. This would initiate the workforce and users into the complexity of running large institutions, create a greater sense of ownership, constrain the fantasies of relentless restructuring and create an ethos or common good within the organisation.

The second reform relates to what is sometimes called 'relational welfare'. I have mentioned that human beings should be understood not as either selfish or altruistic but in terms of 'self-interest broadly conceived'. This is based philosophically on a broadly Aristotelian reading of persons in which human flourishing is understood as bound up with the well-being of family, friends and colleagues and not opposed to that. David Brook's *The Social Animal: The Hidden Sources of Love, Character, and Achievement* gives a good account of the extent to which many different forms of academic research are clustering around the propensity of all things to move into a relationship with other things, and most particularly human beings.[3] We are social beings who find meaning in relationships with others, and it is these relationships that are the source of our flourishing and power, rather than qualifications or formal status. One of the problems with the previous political economy was its tendency to individuate and collectivise, so that relationships were neglected. Relationships are a source of power in that they generate trust and a sense of a shared destiny between people who would otherwise be estranged. Relational welfare would give incentives for people to meet and do things together, rather than put the emphasis on individual care packages, career plans and CV skills.

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A third area relates to the more political issue that there is a large defection from the existing means-tested benefit system among the working class. It is seen as unfair in that people who have not put into it are sometimes beneficiaries, and as inhibiting virtue by rewarding irresponsibility and indolence. With the impact of austerity, this is moving from an irritation to a central political concern. This is at a time when it is undoubtedly the case that there is going to have to be greater welfare provision for social care, the National Health Service and pensions. There is a loss of trust in unmediated state provision, which echoes a further loss of trust in politics and political leadership. A meaningful structural reform would be to generate four contributory mutuals within the National Insurance system that would be owned and administered by those who make a contribution in the areas of social care, pensions, health and social security. It is important that those who care for their parents and children would be viewed as giving, so that there would be incentives to strengthen relationships. This would also provide an incentive for participation and engagement, as interests would be involved.

What needs to be questioned is the reliance on the state and the market as the two essential instruments. There needs to be a stress on relationships and virtuous institutions, a balance of power in the corporate governance of public and private corporations and a common good forged through the reconciliation of estranged interests. Ugly politics leads to ugly governments. A politics in which the rich or the poor are demonised is a bad politics and can end badly for both sides. The stakes are high but the quality is low. It is up to us to build a common good and raise the level – maybe we could call it the spiritual level.

Notes to Chapter 3

[1] See Papal Encyclicals, *Centesimus Annus* (1991), paragraph 32, and *Laborem Exercens* (1981), paragraph 18.
[2] See Papal Encyclical, *Quadragesimo Anno* (1931), paragraph 132.
[3] David Brooks, *The Social Animal: The Hidden Sources of Love, Character, and Achievement*, New York: Random House, 2012; see ch. 1.

Chapter 4

The role of business in social welfare

James Perry

I started my career working for a great Quaker business, Cadbury Ltd. As a trainee I was fascinated by what made the business tick, and so I became friendly with the in-house librarians. Their role was to curate the organisational memory of a business that had been founded with social as well as financial goals, as part of the temperance movement. Chocolate as a weapon against gin, Cadbury as a social intervention, to tackle social distress and human indignity and to model community – while making money.

And then I watched as a new regime in London took over and undertook an internal change programme bluntly named 'Managing for Shareholder Value'. The librarians lost their jobs and I watched the founding values being systematically extracted from the business, on the basis that they were getting in the way of 'shareholder value'.

When my brother and I began our own business, we were naïve. Years before, our parents had started a craft baking business, which employed mostly recovering addicts. While this turned out to be a disastrous recruitment policy, it reinforced the idea to us that there was a choice about what sort of business one might create: on the one hand the early Cadbury business's purpose-led approach; on the other the shareholder-value one latterly imposed on Cadburys. We didn't even think about it; we opted for the former.

'All of the broader, human goals that every entrepreneur starts out with were being systematically extracted by the financial markets.'

But we needed risk capital to grow the business, and it was only after numerous discussions with venture-fund managers that we realised that the choice we thought we had was an illusion. Fund mandates, operated quite properly by venture fund managers, could not accommodate a desire to create social or environmental value. Their mandate, and so their legal duty, was only to create financial value for their investors.

Inadvertently, a system was created where entrepreneurship in the UK was monocultured into profit. All of the broader, human goals that every entrepreneur starts out with were being systematically extracted by the financial markets, much as they were from Cadbury Ltd, 'managing for shareholder value'. Thus King Midas was institutionalised into our society.

In the event, my brother and I went on a hair-raising journey to finance our business without surrendering our purpose, which is a cracking story but not one for today – suffice it to say, we entered the financial collapse ridiculously over-leveraged. Literally overnight we then watched our bank go bust, our sales plummet by 15 per cent; we breached every covenant with our now-broken bank; a terrifying, cavernous cash hole opened up beneath our feet.

In the subsequent two-year fight for our financial life we learnt a lot about the spirit behind the invisible hand and about who your friends are. It was these friends who enabled us to avoid a distressed equity sale and hence protect our ability to retain our social purpose.

Mercifully the business is now scaling, debt-free and cash generative, and employs around 700 people. In retrospect it was a terrific experience and one that left me fascinated by this question of the social purpose of business and of investment capital. I have spent the last eight years researching and experimenting in this field.

During the twentieth century an orthodoxy emerged in business schools that 'the social responsibility of business is to maximise profits'. The rationale for this was based on evidence – business is the greatest source of wealth creation, innovation and employment known to humankind. The data suggested that as economies liberalised and developed, everyone benefited. Social responsibility was outsourced. Governments took responsibility for solving social problems and charities sought to clear up behind them. For a while it sort of, on the face of it, worked.

But the twenty-first century is starting to tell a different story. On the one hand, capital markets have become more sophisticated as information has experienced a revolution. As capital has become more mobile and intermediated we have seen it blown into great drifts, leaving the rest of the landscape sparsely covered. On the other hand, government is increasingly unable to honour the social contract and retain legitimacy. For many charities the scraps from the table become ever scarcer.

'I rather respected the Google CEO Eric Schmidt when he toured Europe … to make the point that it is his legal duty to legally avoid paying tax.'

But all the hand-wringing over tax avoidance, executive remuneration, lobbying influence, zero-hour contracts, social immobility, widening inequality, predatory lenders and so on is to rage at the symptoms. Why are we demonising people for working the rules of the game? And what is the actual cause of these symptoms? I rather respected the Google CEO Eric Schmidt when he toured Europe a couple of years ago to make the point that it is his legal duty to legally avoid paying tax. He pays higher returns to investors – his fiduciary responsibility – when he mitigates tax liabilities. His point – that he would be happy to play by different rules but that it isn't his job to set them – seemed a fair one to me.

So there is a big challenge here. The paradigm under which our society was conceived – where business's role is to maximise profits; government's is to get out of the way of this wealth creation and use tax revenues to solve social problems; charity's is to mop up after the other two – is no longer fit for purpose.

The misalignment between business and society is acknowledged in its institutions. They are created to oppose each other and compete, locked in a zero-sum game: HMRC versus the tax accountancy industry; the CBI versus the TUC; environmentalists versus extractive industries; the financial services industry versus the FCA; big business versus the competition authorities; private versus public; labour versus capital.

That it is failing is obvious. But how do we respond in the face of such a systemic flaw? The core of it must be the concept of alignment – when we align interests, we are able to collaborate rather than only compete. Much like Hegel's *Geist*, if you're that way inclined.

Economists will tell you that there are three inputs: land, labour and capital. Well, Marx valued the labour at the cost of the others; the Greens value the land at the cost of the others; and our current economic system values capital at the cost of the others. It is becoming increasingly obvious that our economy needs instead to value all three, together, in harmony. But how do we do this? The frontier of this question is the place where government, civil society and business meet.

We have three million organisations in the UK. Of these, 2.7 million are companies limited by shares, focused on creating financial value. Some

300,000 are 'civil society organisations' such as registered charities, companies limited by guarantee, community interest companies, co-ops and industrial provident societies. They are focused on creating social and environmental value.

What distinguishes the 300,000 from the 2.7 million is the concept of an asset lock. All of those civil society organisations have some sort of asset lock, or bar on financial distributions. This is how we determine that they are, indeed, social – rather than a vehicle for private interest. The unintentional effect of this asset lock is to exclude social purpose organisations from the capital markets. Perhaps more significantly, it is to exclude the capital markets and business from explicit social purpose. This in turn has the effect of ensuring that any *economic* value created by social-purpose organisations is incidental and that any *social* value created by business is also incidental.

The future, therefore, lies in ending this Berlin Wall between civil society and the capital markets. It lies in expanding the concept of fiduciary responsibility to allow for the creation of social value, and in expanding the concept of social value to allow for the creation of economic value.

This future was elegantly illustrated by the first social impact bond in 2010, where private investors contracted with government through a social-purpose partnership to intervene with short-sentence male offenders. If the private investors could reduce recidivism, they would be paid out of the savings made by government. The private investors then contracted with charities to deliver a broad set of interventions with those offenders to help them put their lives back together. Because they had skin in the game, the private investors were focused on the outcomes in a way that government could not be. Why this first social impact bond has caught the imagination is because of the big idea at its heart: achieving alignment between the creation of social and financial value. Great things are possible when the incredible skills and talent in the financial markets and business are put to work to solve social problems in a way that creates value for both society and investors.

The social impact bond market and the social investment market as a whole continue to develop – the UK is seen as a world leader in this emerging field, with Big Society Capital, the new Access Foundation and so on. Over time this may well have a profound impact on government and how it operates. But an even bigger strategic transformation in the role of government and charity will come if the role of *business* is allowed to change.

A strategy director of a global business recently gave me his personal definition of business. He sees it simply as 'a tool for the efficient organisation of tasks'. Business people, like everyone else, can see the increasingly obvious flaws in the system design, and for them it is personal – winning the game under its current rules often makes them a pariah. So there is a new breed of business leaders and investors whose response to all this is to use the profoundly powerful tool of business to create social and environmental – as well as shareholder – value; ultimately, to use business as a means to solve social problems.

'Because they had skin in the game, the private investors were focused on the outcomes in a way that government could not be.'

This is not such an outlandish idea as it may at first appear. It is after all already the case that business meets social need when it delivers quality goods at reasonable prices and when it creates and distributes wealth – including wealth in the form of jobs – throughout society.

So these entrepreneurs are challenging the core bipolar principle of our system design: that they must either, on the one hand, be excluded from intentionally creating social value; or, on the other, be excluded from capital markets. The most tangible example of this is the global 'B corp' movement. Business leaders from around the world have come together to challenge and change the system. Thus far it has benefited from bipartisan political support. Launching such a movement in the UK was a core recommendation of the G8 Social Impact Investment Taskforce, established by the Prime Minister in 2013.

In September 2015, B corps will launch in the UK with a community of business leaders who are using their businesses to solve social and environmental problems. They range in industries from financial services and investment fund managers to consumer brands; from technology businesses to outsourced public service providers. By using the tool of business to solve social and environmental problems, they can scale. By having clear measurement and analytics tools, they create the possibility that all businesses can measure what matters and move beyond the 'single bottom line'. Notably, one of the biggest companies considering certifying as a B corp in the UK is a global professional services firm, interested because they recognise the importance of measuring social and environmental – as well as financial – value.

The future for social welfare does not lie with government trying to do it all alone, with some help from cash-strapped charities. It lies in a new system where government, business and charities all play their part. Separately, pulling in opposite directions, none of them can respond to the challenges of our time. Aligned, pulling together, they can.