

# Blair government in crisis over welfare

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On coming to power in May 1997, New Labour promised to carry through drastic reforms of the British welfare state. Labour leader Tony Blair sent out fact-finding missions to the 'Asian Tiger' economies like Singapore, and also to Chile. From this followed Blair's vision of a 'stakeholder' economy involving a system of pensions and social security available only to those who pay in. Alongside this went welfare-to-work proposals borrowed from the Clinton administration in the US.

Such drastic measures had become necessary because the previous Thatcher/Major Conservative governments were unable to make any substantial inroads into this area of public spending.

Throughout Europe, governments are embarking on a full-scale assault on welfare benefits as they compete for investment from transnational corporations. They have all faced great difficulty. In Sweden, for instance, the welfare state was hailed as the great model and utilised to claim that the profit system could be made compatible with the social interests of the great majority of the population. As a result, in 1993 public spending in Sweden was 71 percent of national income. But despite the political rejection of this model and an attack on welfare, public spending there still accounted for 65 percent of national income last year.

The assault on working people under Thatcher and Major was even more severe, as they set out to transform Britain into the cheap-labour platform of Europe by driving down wages and attacking working conditions. Although wages fell, the social cost of labour remained high. In 1980 when Thatcher began to axe public spending, it accounted for 43 percent of the economy. After nearly two decades of ruthless cuts and forced pay freezes for public sector workers, spending had shrunk only to 42 percent in 1997. However, the increase in unemployment and erosion of the real value of many benefits greatly widened social inequality.

Labour was swept to power on a popular anti-Tory mandate. For this reason their promises on welfare policies assumed a somewhat schizophrenic character. On the one hand, New Labour promised big business that it would cut the cost of public spending. At the same time, they promised workers they would embark on policies to resolve the deep social problems created under the Tories.

While it was possible to reconcile this glaring contradiction in the empty sound bites that are the language of New Labour, it is quite another to do so in the real world. After little more than a year in office, Labour's welfare policies have provoked widespread hostility to the government and led to increasing divisions within the party itself.

The first attempt to realise their agenda of welfare reform in December last year provoked widespread protest and a substantial back bench revolt. Forty-seven Labour MPs voted against reducing

benefits for lone parents.

The mover of the Bill was Social Security Secretary Harriet Harman, but the task of destroying the welfare state was primarily that of her junior, Frank Field, who was appointed as the Minister for Welfare Reform with a brief to 'think the unthinkable'. Field set out his thoughts in a Green Paper entitled, 'New ambitions for our country: A New Contract for Welfare'.

Field made his name on the right wing of the Labour Party for his role in the expulsion of supporters of the Militant Tendency and other socialists from Labour's ranks in the 1980s. His espousal of the benefits of the free market has earned him a place in the hearts of both the Labour leadership and a sizeable section of the Conservative Party.

The first budget of Chancellor of the Exchequer Gordon Brown in July 1997, adopted the previous Tory government's harsh spending targets and initiated a range of work-fare schemes aimed mainly at workers under 25 years of age. Brown boasted that the new budget, 'begins the task of modernising not just taxation but the entire benefits system of our country'.

As suggested in Field's document, in his second budget Brown introduced a new Working Family Tax Credit to be implemented by October 1999. The new tax will replace the present Family Credit, a system of top-up benefits paid by the state to working families on low income. The Working Family Tax Credit was claimed to be a measure to alleviate poverty, but in reality is aimed at a fundamental realignment of the benefits system away from payment as a matter of right to means-tested tax credits allocated via the employer. A minimum guaranteed family income of only £180 per week has been set, £30 below the official poverty line.

Rather than being universally welcomed by business interests, Brown's proposals were criticised for not going far enough. Some in the Labour Party supported this charge, saying that a rise in the minimal state pension, even if placed alongside the introduction of means testing, discourages people from providing for their own pensions and worked against the stakeholder concept. Others opposed a change from mandatory provision.

Blair's response to this disquiet was to use his first Cabinet reshuffle to gather around him a loyal team that would not flinch at the tasks posed before Labour in government. Harriet Harman went without a murmur, and her post was assigned to Alistair Darling. Field, who had counted on taking the top job in the department, quit his post when Blair rebuffed him. In a bitter resignation statement, Field blamed the present welfare policy stalemate on Chancellor Gordon Brown, saying he had torpedoed plans for welfare reform despite the support of the Prime Minister.

Field has identified means testing as the 'big divide' in the debate

on welfare. At a speech to the Social Market Foundation in London August 6, he said Brown's plans were a disincentive to work that penalised savings and forced people to become more dishonest about their finances. The introduction of the Working Family Tax Credit (WFTC) was a 'fraud-determined minimum wage', he insisted, as employers could persuade staff that they would be entitled to the new benefit if they accepted low wages.

Field was 'thinking the unthinkable' while in government. On the backbenches he now feels free to 'say the unsayable'. An *Independent* article of Friday August 7 likens Field's approach to the welfare state with that of Mrs Thatcher.

The article quotes Field saying: 'The great driving force in practically all of us is self-interest. Self-interest has remained the golden thread linking together most of all human advances since time began. Blaming society, or 'them out there', for instance, to the total exoneration of one's own responsibility, is as inaccurate an analysis of the causes of poverty as it is insulting to the individuals concerned. The role of politicians is not to deny self-interest. To do so is too dangerous for words. It is, rather, to capitalise on this great driving force in each of us.'

Government criticism of Field focuses on the claim that he could elaborate very good plans on paper, but did not develop a strategy for their implementation. Blair has now told Social Security Secretary Darling to press ahead with cutting the £7 billion a year cost of Incapacity Benefit and proceed with pension reform. Darling told BBC Radio 4's *Today* programme, 'What I'm saying to you in clear, unequivocal terms, is the time for talking and discussing is coming to an end. We now actually need to implement our programmes...'

Behind the Field-Brown controversy are fundamental problems facing New Labour over welfare reform that Darling's boasts do not address and which go deeper than the personal failings of this or that individual.

The *Guardian* newspaper published a letter to the new Social Security Minister within days of the cabinet reshuffle expressing concern over a lack of strategy on welfare. Signed by more than 140 academics, it criticised the Green Paper drawn up by Field and said that Labour's claims to safeguard the interests of working people do not stand up to critical examination:

'The principle that guides reform, 'work for those who can; security for those who cannot', raised a number of issues. From our research we know all too well the devastating impact of unemployment on individuals and families. The Government's mission to clear the route into paid work for those on benefit is therefore welcome. But with all the emphasis in the 'welfare contract' on the duties of individual benefit recipients to take up work and training opportunities, where, people asked, was the duty on government and employers to provide such opportunities?'

Such opportunities cannot be provided by the present system. New Labour argued that the ending of universal welfare benefits would be compensated by Britain's ability to become globally competitive and therefore create a highly skilled labour force within new high-tech industries. Yet significantly, at the height of the present row over welfare, the German transnational Siemens announced closure of its new Tyneside plant and the loss of 1,100 jobs as a direct result of increased competition from Asia

in the aftermath of the region's currency collapse. This has enabled governments in countries like Korea, previously cited by Blair as a model, to slash wage costs even further.

In post-war Europe, governments, regardless of political persuasion, pursued policies of social reform to one degree or another. Networks of social security benefits, pensions, free education and healthcare were established as the social props of the post-war political set-up.

It is no longer the case that national governments set down the rules for foreign investments according to their own domestic political requirements. Today it is the international finance markets and transnational corporations that dictate the terms and the national governments have to adapt their own policies to accommodate them. These same countries are faced with carrying through a massive assault on the working class in order to attract international investment and remain competitive on the world market.

The task of carrying through this reversal of social policy in country after country has been taken out of the hands of conservative and right wing governments and handed over to the reformist parties once most closely associated with state provision of welfare. Today social democratic governments are called upon to remove the very social pillars that have, throughout the post-war period, served as the main prop for capitalist rule. It is one thing to 'think the unthinkable' or even 'say the unsayable'. It is another thing entirely to carry through the fundamental social reversal outlined by New Labour without provoking a massive wave of social protest. It is this spectre, and not the shadow of Mr. Field, that is really haunting Blair's government.

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