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Speech

Learning from the past to deliver the future: Getting Britain's labour market and economy working again

Alison McGovern MP, Minister for Employment delivered a speech setting out how to get Britain's labour market and economy working again.

From: **Department for Work and Pensions (/government/organisations/department-for-work-pensions)** and **Alison McGovern MP (/government/people/alison-mcgovern)**

Published 18 September 2024

Location: **One Birdcage Walk - Institute for Employment Studies (IES)**

Delivered on: **18 September 2024 (Transcript of the speech, exactly as it was delivered)**

INTRODUCTION

I want to thank everybody at the Institute and all the Commissioners for this important report today. It’s quite long and represents a very serious endeavour and brings evidence from every part of our country.

And I think it’s such an important contribution to a moment in which I hope, and I will say this morning, we’ll see a page turned from the policy of the past to a new future for the Department that I proudly serve in Government.

In July, the Secretary of State gave a speech in Barnsley setting out our plans to refocus the Department for Work and Pensions from being the department for welfare to a department of work.

We’re going to change the Department for Work and Pensions fundamentally. Because if you go around Jobcentres they still have paper listings on the wall as if it’s 1985. Meanwhile, the rest of the economy is galloping to our AI future. Which is why Liz and I want to be clear we are making an employment service fit for the future, not stuck in the past.

However, updating the Department for Work and Pensions is not just about technology. Today, I want to set out the failure at the heart of past thinking, and where our new policies will be led not just by new opportunities, but by fundamentally different principles.

UNEMPLOYMENT IS A PROBLEM OF THE ECONOMY, NOT OF THE INDIVIDUAL

The report published today describes the UK’s employment service as “the least well-used in Europe” – and I would add least well-loved – “often acting as an extension of the benefit system”. The report highlights the need for far-reaching reforms, including a “clearer separation between employment support and social security delivery”.

And I agree, that point is at the heart of my speech today.

I want to spell out fundamental flaws in thinking that have held us back.

For too long, the question of how to increase employment in the UK has been reduced simply to a question of the individuals out of work. The only question has been whether the social security system undermines a person's will to work.

Because for too long, that narrow focus has dominated all thinking. We've lost sight of the labour market as a whole.

For far too long in politics, we've asked whether this change or that change to social security will result in more people working, instead of looking at the options that people have in the labour market and asking ourselves whether those options and choices are good enough.

This was always doomed to fail. To know that, all you need to do is understand our past.

William Beveridge called it out in 1909. He said: "The first question must be "not what is to be done with the unemployed individual, but why is he thus unemployed".

The truth is, for any individual, you can look at the ups and downs of life and describe why they aren't working: they got sick, they had kids, there was a bus that could get them there but it was cancelled. But when there are over 7.2 million people like that who are out of work, that is no longer an individual problem – it's a failure of our whole economy. As Beveridge described it, it's a problem of industry and a failure of organisation.

Look at the evidence:

- We've got millions stuck on waiting lists and 2.8 million out of work sick. Is that social security? Or the people in charge of the health service who were supposed to keep our country well?
- We've got almost 1 in 8 of all young people on the scrapheap – is that the fault of social security– or was it the failure to help the lockdown generation?
- We've got too many insecure jobs, with unpredictable working patterns. And that has nothing to do with social security.

- And the welfare state is not to blame for the lack of buses after 6pm in northern towns. It is ridiculous.

What people call ‘welfare’ has been the current obsession.

HOW TO FIX OUR SOCIAL SECURITY SYSTEM AND DELIVER A THRIVING LABOUR MARKET

But this was not a trap that the author of our social security system fell into.

In his 1942 report, Beveridge wrote that his plan assumed “the establishment of comprehensive health and rehabilitation services, and maintenance of employment, that is to say avoidance of mass unemployment as necessary conditions of success in social insurance.”

Beveridge did not think social security was a cure-all. He knew its success was conditional – that his system would not work without these two other post-war reforms: the goal of full employment, and the goal of a national health service at the disposal of all workers.

Social security is there to smooth people’s incomes over time and to take account of life events we all have a strong chance of experiencing – old age, the birth of a baby, sickness or redundancy. Run well, it should be a counterweight to poverty and a stabilising force at a time of distress. But only if we acknowledge that tinkering with its edges will never solve the problems of the broader economy.

Instead, we need to give people the good choices and chances that they need.

Because markets can be a force for opportunity and prosperity. But we should also mould them, and shape them, and spread power widely within them. A market for labour that has businesses crying out for staff, and a queue at the foodbank door is failing this country.

You’ll know that the Commissioners join Beveridge in prescribing the UK Government an objective to move towards full employment. And it's why Liz and I also join the Commissioners - having announced our bold, long-term ambition to get to an 80% employment rate – the kind of clear objective that our hosts here at the Institute for Employment Studies say will help change the fortunes of our country.

LEARNING FROM HISTORY: ECONOMIC CRISES AND ACTIVE LABOUR MARKET POLICIES

The central point I want to make today is that's right and we've forgotten our own history on this point. Particularly, the major turning point after the Second World War whereby the issue that caused the collapse of Ramsey McDonald's second Labour Government – unemployment – was resolved. Post-war, it was accepted that the economy, and the labour market in particular, ought to keep people (men at least) in work and off the streets.

The generation that experienced dreadful conflict and mass destitution decided they would put an end to it. They created a department for employment to train and rehabilitate people, industry full of apprenticeships, and of course the Employment Exchanges - what we now call Jobcentres - to connect the unemployed with jobs. The Commission's report, in my opinion, reestablishes this lesson for the 2020s.

Beveridge was not perfect, but he was definitely a man who made a difference.

But it is the story of two women on either side of the Atlantic that I think can help us see even more forcefully why we need a rebirth of active labour market policy today.

On one side of the Atlantic, Frances Perkins – first woman in the US cabinet, creator of the New Deal and author of the plan for prosperity in response to the destitution of the Great Depression.

On the other side of the Atlantic, four years earlier, Margaret Bondfield. We all know who that is, right? The first woman in the UK Cabinet, dealing with ever rising unemployment and an unsustainable unemployment insurance bill.

With active labour market policy for Bondfield not yet invented, the Labour Government collapsed and her political career was all but forgotten.

Now if you read Bondfield's memos from the time, and you can see her frustration, repeatedly making the case for increasing the national insurance fund to prevent hardship but with no answer to the cause of the problem. And the populists of the 1930s were at the gate, making the most of the economic distress.

Caught in the middle, she was desperate for the answer that came just a few years later in the United States with Frances Perkins' creation of the New Deal.

Why do I tell her story?

Because unlike Margaret Bondfield we can't say we don't know what the answer is because since then we've learnt from nearly 80 years of public policy in response to economic failure.

We've learnt from that failure of the 1930s.

We've learnt from the near full employment that came from the post war consensus.

We've learnt from when the consensus broke down in the 1970s and other crises took over. Inflation became the big challenge that economic policy turned to face down – and the cost of that was a return to high unemployment.

We've learnt from industrial collapse, which saw a move away from the mass employment provided by heavy industries like manufacturing and coal mining towards services and finance.

We learnt what this would mean for towns and cities across Britain. When women joining the workforce concealed an even worse outcome for men.

And we've learnt that this saw regional disparities deepen – in whole parts of the country, economies simply failed – and many are still yet to properly recover.

Despite attempts to manage this, the number of people out of work due to sickness grew rapidly, with incapacity caseloads broadly doubling to 2.7m by the time we entered the 2000s.

So we had to learn through the actions of the last Labour government in 1997, that in response to this horrendous situation, there had to be an explicit rebirth of active labour market policy, with the United Kingdom's very own New Deal.

A radical series of reforms designed to provide people with active tailored support to help get them back into work as unemployment fell and the economy grew.

With a big focus on young people.

The global financial crash in 2008 saw unemployment rise again and the Department for Work and Pensions then, in response, scaled up its active labour market policy operations.

And as a result, the global crash did not have a long-term impact on the trend rate of employment. That is not to say everything was perfect, but it's worth learning from.

And I've certainly learnt from what happened in 2010.

[Please note political content redacted here]

Active labour market policy was shrunk back to a preoccupation with social security rules.

And the results of the past 14 years show what's been happening with our labour market.

A quarter of working age people are not in work, with 2.8 million people out of the workforce due to long-term health problems.

Over 4 million people in work and with work-limiting health conditions which may put them at risk of not fulfilling their potential or falling completely out of the labour market.

And I want to say to you all this morning - now is the time to turn the page on that failure.

Because just as in 1930, Margaret Bondfield said of the Unemployment Insurance Scheme that it “is being asked to meet situations for which it was never designed.

The same is true of our social security system today. We cannot load every economic problem we face onto minor tweaks in the social security rules.

Which is why, as part of our Get Britain Working White Paper, we are bringing forward fundamental reforms to employment support.

That includes changing the outcomes against which we measure its success – for example, not focusing alone on getting people into work but on achieving higher engagement with everyone, much higher employment in the short-term, and higher earnings too.

We will overhaul Jobcentres in this country and we will get people into work long-term.

We will have a new youth guarantee so not a single person will be left on the scrapheap when they’re young.

And because Liz and I know the country doing well is no compensation if your town or city is being abandoned, we will make sure - as the Prime Minister says - that those with skin in the game – our mayors and regional leaders –have the levers they need to make change.

As the Commissioners have laid out in their report, our highly centralised system needs to move towards a model more in line with those used in other high-performing countries – with more control at the local level.

This big reform will be matched by the action we’re taking across the UK Government to support jobs and growth.

We'll soon be introducing legislation into Parliament so people's work is better paid and more secure.

Skills England will change the place of learning in this country to give everyone a chance of success.

And we will create new Local Growth Plans powering towns and cities up and down the country.

I know change won't happen overnight, but I am determined to fix the foundations in the Department for Work and Pensions so that more families can benefit from the security, dignity and prosperity of good work.

CONCLUSION

The point I'm making here, I know is not a new or innovative one. As I've said, it's the founding principle of our social security system –

You cannot have well-functioning social security without full employment.

Beveridge knew that.

But let me conclude with a few small points that we could help Beveridge understand.

Because whilst his principle remains the same, the circumstances we make these reforms in are very different.

So it is for us to apply that principle to the society we have now - more than 80 years later.

Where the health system – still as vital as ever – must address a very different set of challenges. Not infectious disease, but chronic poor mental health.

Where women's role in the workforce makes the need for a proper childcare system as pressing as Beveridge believed the need for a reformed health system was in the 1940s.

Now Beveridge also didn't give any evidence that he foresaw the rise of the motor vehicle, which - combined with inadequate investment in public transport - forces those who can’t afford a car to face limits on their ambitions – especially if they live in an area with fewer opportunities and chronically bad transport.

Changing that will be part of better organisation for our economy and I hope that Beveridge might have thought was a good idea.

Our desire for an 80% employment rate comes from a serious understanding of our country’s history, and also from facing the reality of the economy today. We have a serious understanding of the challenges and opportunities before us, and who they apply to.

That is why what is not needed now is a sticking plaster, or a tweak or an amendment, but a change in principle, in policy and in practice. Leading to a better organised economy – and a market that works – spreading opportunity and prosperity to every corner of our country.

Back in the 1930s, the New Deal provided Americans with a springboard and a safety net. And a recognition that you don’t get one without the other.

What unites these moments in history that I’ve talked about is an ambitious idea about what can happen if you put a platform under people and see what they could do and what they could achieve.

The report that the Commissioners have written - published today – I think is very ambitious. But I hope I have made the case, in my remarks, that it ought to be ambitious.

Because for too long, our economic policy has shrunk the people of this country. Our new economic approach will see people for all they could be and all the opportunities they deserve.

Published 18 September 2024