

REIMAGINING THE STATE

An essay

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After a decade of disruption, in the wake of the pandemic, we find ourselves at a crossroads. We can continue on our current path – attempting to manage a slow decline in our public infrastructure, accepting anaemic growth and public disillusionment – or we can forge a new one.

The challenges and opportunities facing us – brought about by profound global, demographic and technological changes – are era-defining, yet our public and political discourse is falling short. For too long, Britain has been papering over the cracks in an outdated social and economic model. This may bring temporary respite, but, as we are so painfully experiencing, it doesn't fix the foundations.

In 1942, Beveridge stated: "a revolutionary moment in the world's history is a time for revolutions, not for patching". 1 80 years on, that statement once again rings true. Now is the time to fix Britain's foundations.

We must seize this moment of deep insecurity and uncertainty to build a fairer, more sustainable system. Failure to act will mean widening inequalities, deepening social divisions, stagnating productivity and unsustainable public expenditure. In short, our collective prosperity will erode and our global competitiveness will wane.

1. THREE FOUNDATIONAL SYSTEMS: THE OVERARCHING FRAMEWORK

For nations to flourish their people must flourish. When people succeed, and wellbeing is high, they are more likely to be productive, engaged citizens. They do not require high levels of State support, they can build strong families and contribute to their wider communities, and they can make full use of their skills and talents.

There are well-known factors that underpin a good life. As humans, we crave certain fundamentals – **purpose**, **agency and meaning** – which are derived from attaining certain conditions:

- Strong and meaningful relationships (within families, neighbourhoods, workplaces, civil society)
- Good health (mental and physical)
- Good work (a stable job, a decent income, basic employment rights and protections)
- Sufficient security (secure housing, a safe place to live, basic financial resilience)

¹ William Beveridge, *Social Insurance and Allied Services (Beveridge Report)* (London: Stationery Office, 1942).

• Core capabilities (soft and hard – such as numeracy and literacy, job-specific skills, digital skills, financial and social capabilities, resilience)

In addition, the **opportunities** available to an individual have a significant impact on their ability to flourish. If barriers – such as the absence of a good school or good jobs, or discrimination based on background, race or disability – mean they can't realise their potential and ambitions, the likelihood of them truly flourishing is diminished.

Crucially, our ability to attain those conditions depend on the functioning of **three foundational systems: the State, the Market and Communities**.²

Each system contributes to each characteristic. For example, participation in local civic networks (Community), good work (Market) and living in a safe area with green space (State) all contribute to good health; just as earning a decent income (Market), living in a culturally inclusive society (Community) and democratic participation (State) contribute to individual agency.

Each system has a vital role to play, and while there are certain things that one system is best placed to do (for example the State ensuring national security; the Market creating jobs; and Communities providing relational support networks), it is through their collective contribution, with each in balance and complementing the others, that nations flourish.

To put it another way, the State and the Market alone cannot create purpose, Communities and the State alone cannot enable agency, and Communities and the Market alone cannot build capabilities. And a weakness in one or more system creates a vacuum which the other pillars cannot compensate for, but in trying to do so will likely create further problems.

- An **overreaching State** weakens the bonds of community, supresses innovation and risks becoming a self-serving bureaucracy which cannot meet citizens' expectations, thereby losing trust.
- A weak State leaves the vulnerable and disadvantaged exposed, enables
 deep inequalities to take root and allows the development of unscrupulous and
 monopolistic Market practices. It may also leave citizens vulnerable to
 oppressive or exclusionary community practices.

² Communities is being used as a catch all for families, neighbourhoods and wider civil society – the social fabric that underpins society

- An unchecked Market opens the door to monopolisation and 'robber barons', to crony capitalism and deep inequalities, a loss of innovation and therefore economic growth, and a loss of trust.
- A weak or overregulated Market supresses entrepreneurialism and innovation, leading to economic stagnation, lower living standards and poverty.
- Weak Communities mean low social capital, a loss of meaning and purpose in people's lives, growing isolation and loneliness, deteriorating health, and an increasing reliance on the State (again creating expectations that cannot be matched).
- Overbearing or exclusionary Communities can stifle individual agency, prevent the development of broader, bridging networks, smother innovation and limit opportunity. They can also deepen national divisions and create 'us vs them' tensions.

In all of these scenarios, a loss of trust in 'the system' can – and we have seen *does* – lead to social unrest and political polarisation.

Today, as is the case across much of the Western world, the three systems are out of balance. The Market is widely perceived to be, and in too many respects is, unfair. The State has expanded, in too many areas, into a bureaucratic behemoth, focused on managing people in crisis rather than building their capabilities. Communities (including families), our social infrastructure, have fractured, leaving millions feeling isolated and lonely, without a sense of belonging or agency.

For Britain to thrive in the coming decades, the three foundational systems must be rebalanced.

Markets must be reformed to deliver a fair deal for workers, boost competition, increase innovation and sustainability, and address market failures (such as poverty premiums). The **State must be reimagined** in order to build institutions and approaches that are fit for the challenges of the next century, rather than the last; so that public services develop capabilities rather than trap people in dependency; and empower rather than usurp the Community. **Communities must be refounded** to strengthen social capital and reaffirm a shared morality in which we respect, trust and support one another.

2. NOW IS THE TIME: THE OPPORTUNITY

While the scale of the challenge is significant, there is ample reason to be optimistic. We are experiencing a paradigm shift in thinking, with increasing calls for radical change – and history shows that profound course-corrections are possible.

Many businesses are recognising their responsibilities beyond those to shareholders, and purpose is rising to the top of executive priorities. Younger generations in particular are prioritising social justice and sustainability in their life choices. Social entrepreneurs and commentators are questioning whether the State really is best placed to deliver all the services it does, seeking radically different ways to support those in need. Social infrastructure is being acknowledged as as important as physical infrastructure to life outcomes, and wellbeing is moving from buzzword to objective. Across the board there is strong and increasing recognition of the value of community – with the pandemic providing clear evidence of people's desire to 'help thy neighbour'.

However, while we are living through this paradigm shift, policy has yet to catch up. Among politicians and policymakers, the three systems are largely considered in isolation – and historically, when there has been a broader debate it has tended to focus on the push and pull between the State and the Market, ignoring the role of Communities.

As Raghuram Rajan argued in his book *The Third Pillar*, this has contributed to the community 'pillar' being 'left behind' as market forces and centralised political power advance in lockstep, leaving society itself impoverished and weakened.³ For Elinor Ostrom, the consistent failure of politicians and economists to recognise the role of systems that go "beyond markets and states" has seen the crowding-out of more localised, autonomous, and self-governing solutions to classic problems of decision-making and resource management.⁴

In his Local Trust *Community Power* Lecture, Andy Haldane stated "ideological difference are typically defined as points along [a] market-state spectrum", and yet, "the common denominator behind failure of nation states has been weaknesses in the civil society institutions that serve as a check and balance on the first two pillars."

³ Raghuram Rajan, *The Third Pillar* (Harpercollins, 2019)

⁴ Elinor Ostrom, *Beyond Markets and States: Polycentric Governance of Complex Economic Systems*, Nobel Prize Lecture, 2009.; For a discussion of the implications of Ostrom's research for UK policy, see Simon Kaye, *Think Big, Act Small: Elinor Ostrom's Radical Vision for Community Power* (New Local, 2020).

"How is the weight currently distributed between the market, the state and civil society?", he asks. His answer: unevenly.⁵

It is precisely because the three foundational systems are interdependent that adjustments made to one must actively take account of, and understand the impact on, the others. Focusing the discussion on how to maximise the factors that enable people to flourish forces us to consider all three systems together.

If driving prosperity (in its broadest sense: economic and social) is a key aim of policymakers, then so too must be re-balancing the strength and functioning of the State, Markets, and Communities.

By definition, public policy proposals are ideas about how some aspect of the State – legislation, regulation, taxation, services – should be improved. Unlike Markets and Communities, the State has the power to self-consciously alter its relationship with the other two systems. It can be an enabler, or a source of challenge; it can shape, or be *laissez-faire*.

For better or worse, the State has the power and mandate to help create the conditions for fair and flourishing Markets and Communities, or, through either poor policy or neglect, to contribute to their decay. Reimagining the role and shape of the State is the best – and only – way to bring positive change to all three of these foundational systems.

LEARNING FROM HISTORY

The modern State was born out of the Second World War – social solidarity demanded a better deal for those who had given so much for freedom. Yet the roots of this course-correction were decades in the making. From the late Victorian era – which saw a shift in thinking about the role of the State in protecting workers and improving living standards, driven by the idea that Britain was in fact two nations, one marked by prosperity, the other by deprivation – through the First World War and Great Depression, there was a growing realisation that the prevailing laissez-faire doctrine was broken. The result was a radical reimagining of the State.

Yet the unintended consequence of that course-correction was a crowding out of civil society organisations, key Community fabric, and an erosion of the Market. With a vastly diminished need for the mutual aid that had marked the civic institutions of the Victorian era, post-modernism's no-strings attached individualism prevailed. And

⁵ Andy Haldane, *The Local Trust Community Power Lecture with Andy Haldane* (Local Trust, 2021).

while the focus on individual rights led to positive moves towards greater equality, the moral relativism that developed undermined reciprocity in parts of society. Yet, at the same time, the pendulum had swung too far towards (politicised) union power, and with great swathes of the economy nationalised Britain became paralysed.

Innovation, that great engine of progress, was smothered. The State had overexpanded, unchecked by the other two systems.

Just as the Second World War had provided the burning platform for radical change, the extreme industrial action of the 1970s provided the next moment of decisive action. The course-correction this time was to strengthen the Market. Union-busting, privatisation, de-regulation and lower taxation were in as the theories of the Chicago school economists were implemented. Shareholder value maximisation drove an emancipated Market which delivered sustained economic expansion. Yet while economic growth returned, inequality rapidly increased, and former industrial heartlands became increasingly detached.

Subscribers to the (neo)liberal world view were in part "intensely relaxed about people getting filthy rich" because, under New Labour, the State engaged in greater redistribution – hence the oft ignored end of Peter Mandelson's quote: "as long as they pay their taxes". Despite a Third Way emphasis on strengthening civil society, consumerism took precedence over social capital. And New Public Management theory created a too narrow focus on process efficiency, rather than questioning whether actors other than the State were best placed to help those with complex needs. The State and the Market had together crowded out the Community.

The global financial crash and the rise of populism were the unintended consequences of the pillars once again being out of kilter. Yet despite growing calls for a more communitarian approach – from both Left and Right⁷ – and a more responsible form of capitalism, we are yet to see the course-correction required.

The experience of the pandemic must be that trigger. It, like the Second World War and 1970s national paralysis before it, has exposed just how broken our system is. Those most disadvantaged bore the brunt of the crisis, and despite unprecedented levels of peace-time public spending, the State was unable to prevent this. The cost of living crisis we now find ourselves in further confirms the need for a radical rethink

⁶ George Parker, 'A Fiscal Focus', *Financial Times*, 7 December 2009.

⁷ See, for example, Phillip Blond, *Red Tory: How Left and Right Have Broken Britain and How We Can Fix It* (London: Faber and Faber, 2010).; Maurice Glasman, *Blue Labour: The Politics of the Common Good* (Cambridge: Polity, 2022).; Danny Kruger, *Levelling up Our Communities: Proposals for a New Social Covenant*, 2020.

of how these foundational systems operate. The degree to which Britain, and millions of her citizens, have been left exposed and vulnerable reveals weaknesses in all three systems.

That is why, unlike during the two previous course-corrections, the refounding of the Community pillar must be a priority. And why achieving this, and ensuring Britain is better placed to withstand what looks set to be an era of crisis, we must reimagine the role and functioning of the State.

3. REIMAGINING THE STATE: THE TASK

Over the past century the State has expanded in reach and size. It has provided important checks on the Market (implementing basic workers' rights, protecting consumers, safeguarding competition and regulating for market stability), and sought to alleviate poverty and ill-health, and secure a basic standard of living for all. It has also sought to stimulate innovation and growth, protect citizens from threats at home and abroad, and, more recently, to address climate change.

To do this, it has expanded considerably, with State spending increasing from below 30 per cent of GDP in 1920 to around 40 per cent pre-pandemic.⁸ Post-pandemic, spending will remain elevated at around 41.5 per cent of GDP, the highest sustained level since the late 1970s.⁹

On many measures, there has been considerable progress. Life expectancy has soared, infant mortality rates have plummeted, absolute poverty has declined, vastly fewer people suffer injury at work, and society is markedly more inclusive.

However, at the same time there is cause for deep concern, with progress against some measures stalling or even reversing, and new modern challenges developing that the State is ill-designed to tackle.

More than half of public spending goes on welfare – health, social security, and education – and these are the public services that have driven the increase in spend over the past few decades, most notably health.¹⁰ Of the additional spend since

⁸ Philip Brien and Matthew Keep, *Public Spending during the Covid-19 Pandemic* (House of Commons Library, 2022).

⁹ Institute for Fiscal Studies, 'What Does the Government Spend Money On?', Webpage, 4 June 2021.

¹⁰ Philip Brien, *Public Spending: A Brief Introduction* (House of Commons Library, 2021).

2010, three quarters has gone into the health and care budget.¹¹ Yet despite the fact that Britain now spends around half a trillion pounds on the welfare state,¹² outcomes in many areas are profoundly worrying. As a nation we are stalling.

The difference in life expectancy between the most and least advantaged areas has widened since the turn of the century, ¹³ and while life expectancy may have increased, *healthy* life expectancy has not kept pace, with the prevalence of multimorbidities on the rise. ¹⁴ Obesity rates have almost doubled since the early 1990s and, ¹⁵ even before the pandemic, one in four of us were experiencing mental ill-health each year. ¹⁶

Much of this is preventable, yet despite huge investment and numerous government strategies these key health metrics are only going in one direction. The cost is diminished lives, an overburdened NHS, and more than two million people parked on incapacity-related benefits¹⁷ – few of whom will ever return to work, representing a massive waste of human talent, as well as a huge cost to the economy.

Our failure to make maximum use of the nation's talents can also be seen in our poor levels of social mobility. It is estimated that, at the current pace, closing the GSCE attainment gap will take over 500 years, 18 with disadvantaged students twice as likely as their more affluent peers to leave school without GCSEs in English and Maths. 19 School closures during the pandemic have exacerbated an already unacceptable gap in life chances between the haves and have nots.

In the modern labour market, a job for life is rare, and younger generations are likely to change careers, not just jobs, multiple times. Resilience and adaptability will be as important as knowledge. Developing capabilities such as relationship building, communication, and financial and digital skills are key to flourishing. Yet 40 per cent of employers report being 'dissatisfied or very dissatisfied' with the wider character,

¹¹ Torsten Bell et al., *The Boris Budget: Resolution Foundation Analysis of Autumn Budget and Spending Review 2021* (Resolution Foundation, 2021).

¹² Brien, Public Spending: A Brief Introduction.

¹³ UK Health Security Agency, 'What Do PHE's Latest Inequality Tools Tell Us about Health Inequalities in England?', Webpage, 18 June 2019.

¹⁴ National Institute for Health and Care Research, 'Multi-Morbidity Predicted to Increase in the UK over the next 20 Years', Webpage, 20 March 2018.

¹⁵ Carl Baker, *Obesity Statistics* (House of Commons Library, 2022).

¹⁶ NHS England, *The Five Year Forward View for Mental Health*, 2016.

¹⁷ Department for Work & Pensions, 'DWP Benefits Statistics: August 2022', Webpage, 19 August 2022.

¹⁸ Jo Hutchinson, Mary Reader, and Avinash Akhal, *Education in England: Annual Report 2020* (Education Policy Institute, 2020).

¹⁹ Sutton Trust, Mobility Manifesto 2019, 2019.

behaviours, and attributes of young people entering the labour market.²⁰ This is perhaps unsurprising when Personal, Social and Economic Education (PHSE) in schools is largely viewed as woefully inadequate.²¹

Helping to explain the UK's poor productivity growth, around one in five adults in England lack even basic numeracy and/or literacy skills.²² Particularly worrying, unlike in other OECD countries, young people fare little better than older adults, illustrating a long-term problem for the nation.²³

The cost of living crisis will be very difficult for the majority of families, but for the poorest it will be devastating – they have no buffer. Over the last half a century, while relative poverty has dropped dramatically among pensioners, for working-age adults and children it has increased significantly.²⁴ Even before the pandemic, nearly 11 million people were deemed to have low financial resilience, by late 2020 it was over 14 million,²⁵ making it near impossible to cover one-off costs (replacing a broken washing machine, fixing the car, or replacing outgrown school shoes), never mind weather an economic downturn. In the past four decades the share of income going to the top 1 per cent of households has tripled.²⁶

And while we have seen the rise of in-work poverty and the development of the 'precariat', the deterioration in our mental and physical health, and a widening gap between the needs of the modern labour market and the capabilities of the workforce, we have also watched as our social fabric has frayed.

The proportion of people who live alone has almost doubled since the 1970s,²⁷ with over 6 per cent of people reporting they 'often' or 'always' feel lonely (a proportion that has steadily increased over the past decade).²⁸ One in five under-35s report

²⁰ Confederation of British Industry, *Education and Learning for the Modern World: CBI/Pearson Education and Skills Survey Report 2019*, 2019.

²¹ Anna McShane, Carla Munnelly, and Ed Dorrell, *Fixing a Failing System: Rethinking Mental Health Support in Schools for the Post-Covid Generation* (The Coalition for Youth Mental Health in Schools, 2021).

²² Learning and Work Institute, *Getting the Basics Right The Case for Action on Adult Basic Skills*, 2021.

²³ Małgorzata Kuczera, Simon Field, and Hendrickje C. Windisch, *Building Skills for All: A Review of England* (OECD, 2016).

²⁴ Institute for Fiscal Studies, Living Standards, Inequality and Poverty Spreadsheet, 2021.

²⁵ Francis-Devine Brigid, *Coronavirus: Impact on Household Debt and Savings* (House of Commons Library, 2021).

²⁶ Robert Joyce and Xu Xiaowei, *Inequalities in the Twenty-First Century* (Institute for Fiscal Studies, 2019).

²⁷ Office for National Statistics, 'Households, Families and People (General Lifestyle Survey Overview - a Report on the 2011 General Lifestyle Survey)', Webpage, 7 March 2013.

²⁸ Office for National Statistics, 'Loneliness - What Characteristics and Circumstances Are Associated with Feeling Lonely?', Webpage, 10 April 2018.

having just one, or no, close friends – a figure that has trebled in the past decade – and half of under-25s distrust their neighbours.²⁹ Fewer of us are benefiting from the life-affirming relationships that provide meaning.

This not only impacts an individual's wellbeing, but also their health, their ability to navigate tough times, and their financial and emotional resilience. Communities with lower social capital are also more likely to be experiencing higher crime and higher levels of deprivation.³⁰

For the first time, the pattern of continuously improving living standards – what Deirdre McCloskey has called the 'great fact' of human progress under capitalism³¹ – has plateaued. Our productivity has collapsed, our incomes have stagnated, our life expectancy is slipping, our services are being rationed, and our expectations are fading. Unsurprisingly, the result is deepening pessimism about the future – less than a quarter of people think young people today will have a better life than previous generations³² – and a democratic deficit. Almost half of people think they have no influence at all over national decision-making, while just a quarter think they have influence locally.³³

The choices made in the next few years will determine whether we can reverse this decline and build a more resilient, fairer and prosperous Britain – or if future generations will view this as the moment that progress reached its apex and began to fade.

THE LIMITS OF THE POST-WAR SETTLEMENT

The social ills we face today look very different from those of three quarters of a century ago, and the trends driving that change will present different challenges in the coming decades. From globalisation to technological and scientific innovation, lifestyle and demographic shifts to climate change, these trends are reshaping, in both positive and negative ways, how we live, work, and interact.

The greatest threats to the health of the nation are no longer injury and disease, but loneliness, anxiety and depression, and chronic conditions. Yet we continue with a hospital-dominated healthcare model better suited to episodic rather than long-term

²⁹ Will Tanner, Fjolla Krasniqi, and James Blagden, *Age of Alienation: The Collapse in Community and Belonging among Young People, and How We Should Respond* (Onward, 2021).

³⁰ Will Tanner et al., *The State of Our Social Fabric* (Onward, 2020).

³¹ Deirdre McCloskey, *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (Chicago: University of Chicago Press, 2010).

³² Hannah Shrimpton, Gideon Skinner, and Suzanne Hall, *The Millennial Bug: Public Attitudes on the Living Standards of Different Generations* (Resolution Foundation, 2017).

³³ Hansard Society, Audit of Political Engagement 16: The 2019 Report, 2019.

or preventative care. The socio-economic conditions in which we live are key determinants of our health, yet our national discussion is narrowly focused on how to manage an overburdened sickness service rather than how we can better create health and wellbeing.

For millions, worklessness is no longer a temporary hiatus requiring temporary benefits, and for millions more, their earnings are no longer sufficient to escape poverty. A career for life, whether blue or white collar, is no longer a realistic proposition. The world of work looks profoundly different from that for which Beveridge designed our social security system. New approaches are needed to education, skills, employment support and benefits, yet we continue with out-dated models.

The public service institutions and approaches we rely on today are largely modified versions of those built as part of the post-war settlement. The aims and ambitions of those who designed them were inspiring, and millions have relied on these core services. But the challenges that faced 1940s Britain are not those facing Britain today. The post-war spirit is instructive, but the post-war settlement is no longer fit for purpose.

Our public services are bureaucratic and overly centralised, delivering one-size-fits-all interventions, that are focused more on managing demand and minimising risk than transforming lives. The failure to *reduce* demand has meant soaring costs, to which the response has been 'new public management' theory efficiency drives and the unofficial rationing of services. Neither have delivered a fundamental shift in outcomes.

Indeed, this approach actually increases cost and perpetuates misery and disadvantage by trapping people in dependency, whether directly on benefits or medical interventions, or indirectly through an expectation that the State will solve all problems. This is creating an unaffordable burden on future generations and has eroded the sense that building a better Britain is a shared project.

TOWARDS A 21st CENTURY MODEL

As the social fabric of Communities has frayed, and the social contract binding the Market has decayed, the State in the form of public services has been left picking up the pieces. A realignment is needed. The welfare of the nation cannot – and should not – be delivered by the State alone.

We need a course-correction that recognises that the State should only deliver the services that it is best placed to deliver. One that recognises that a thriving civil society and a dynamic private sector are as important as an effective and legitimate State – and that the actions of the State have a direct impact on those systems. By shifting the shape, purpose, and behaviours of the State, a new relationship can be achieved with both Markets and Communities.

Improving the current model of service delivery, as valuable as that may be, is not enough. That's why despite genuine attempts by successive governments to improve public services, and, particularly in certain areas, considerable additional spending, on too many key indicators Britain is underperforming.

Achieving radically different outcomes requires a radically different approach. As Macmillan put it in the post-war era: "We must be bold; caution is no good."³⁴ The old 'big versus small state' debate has prevented us from really examining what its purpose should be. It is not about size but about function. It is time to reimagine how the State operates; to shape a new social settlement fit for today and the coming decades.

The answer lies in reshaping the State. The vision is a State which:

- acts as an enabler of prosperity seeking to maximise the health, wealth and wellbeing of the nation by enabling every individual to flourish;
- delivers only the services that it is best placed to deliver, creating the right environment for communities, civil society and the private sector to thrive;
- acts in the long-term interests of the nation, ensuring services and programmes are outcomes-driven and sustainable, based on a fair funding settlement for current and future generations;
- takes decisions as close to citizens as appropriate, seeking to devolve power wherever possible rather than hoarding it at the centre;
- attracts the best talent, embraces innovation and creativity, is clearly accountable and instils trust.

In practice that means shrinking the centre while building local capabilities; dismantling top-down bureaucracies in favour of locally owned and designed models; reinventing traditional institutions like GP surgeries and schools; challenging existing funding models and questioning received wisdom; and using technology not just to drive efficiency but to create networks that build social capital.

The State should be operationally brilliant (for example at processing applications, paying pensions, assessing national resilience and managing crises), set standards

³⁴ Richard Thorpe, *Supermac: The Life of Harold Macmillan* (London: Pimlico, n.d.).

and transparently regulate services, ensure equity of access to high-quality universal services (like a good school or hospital), but wherever possible leave the delivery of life transforming services to locally-embedded organisations better placed to build meaningful relationships.

Strong, inclusive Communities, with the high levels of social capital they bring, complemented by an enabling, sustainable and legitimate State and a dynamic, fair and productive Market, are the best way to tackle modern day ills and build a prosperous Britain for the future. By *Reimagining the State* in the context of those other two foundational systems we can create the conditions for people to flourish, and ensure Britain remains competitive and influential into the next century.





