OPENING REMARKS:
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COMMENTS:
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DISCUSSION:
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CENTER ON BUDGET AND POLICY PRIORITIES;
RICHARD REEVES, BROOKINGS INSTITUTION;
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MODERATOR:
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ARTHUR BROOKS: Good afternoon. I’m Arthur Brooks, president of the American Enterprise Institute and I’m delighted to welcome you to this afternoon’s session on welfare, work, and poverty.

Here at AEI, as all of you who are here know, especially those of you who spend a lot of time with us, we’re completely dedicated to finding new and better ways to fight poverty. Part of our mission is to give low-income Americans better opportunities to rise out of difficult circumstances and to attain the human dignity that comes with meaningful work and earned success. Part of this effort is learning from what leaders in other countries have done and that’s why we’re honored to welcome the United Kingdom’s Iain Duncan Smith here to AEI this afternoon.

Secretary of State Smith has served as a Member of Parliament for Chingford and Woodford Green constituency in London since way back in April of 1992. He’s held a number of previous roles, including the leader of the opposition and he led the Conservative Party from 2001 through 2003. And since 2010, he’s been the U.K.’s longest serving Work and Pensions secretary.

Under his leadership, the Department for Work and Pensions has undertaken a significant program for welfare reform, which has transformed pension benefits and employment support. As secretary of state, he also heads the U.K. Government Social Justice Cabinet Committee, building on the anti-poverty work that he started at the Center for Social Justice, which is a think tank that he founded in 2004. So we have not just a fellow fighter for the poor here, we also have a fellow think tank person here with us here today.

So I’m going to welcome him now and I practiced this last part. One of the great charms of welcoming our friends from Great Britain is that their titles are much longer than ours. So here it goes. Please join me in welcoming our friend the Right Honorable Iain Duncan Smith, Member of Parliament and Secretary of State for Work and Pensions. (Applause.)

SECRETARY OF STATE IAIN DUNCAN SMITH: Thank you very – can everybody hear me now? Can you hear me? I don’t mind talking without a microphone. It’s gone on again, very good.

Thank you very much, Arthur. Thank you very much, indeed, for those kind words. I thought for a minute somebody wasn’t going to turn the sign around, so I’d go back to my days of leading a think tank again. (Laughter.) So it’d be quite good actually, really not bad at all.
Thanks, Arthur, for that introduction. It’s a huge pleasure to be here. It’s been a little while since I was at AEI. I’ve been in Washington on a number of particular occasions, but thank you very much, indeed, for chairing this event here.

I was in the States about a year and a half ago, so I was talking to a number of senators and congressmen about welfare change, but it’s interesting and a pleasure to be here towards the end of this particular government. I can’t project what’s going to happen in the future, but come May the 7th, all things will be clear to us.

But the reality is that I engaged in a set of reform and in Britain a huge amount has changed in that period of time that we set out to do this and even more so since the coalition in 2010. And I stress it’s a coalition, not just a conservative government. Then, we inherited an economy that had entered arguably the worst recession in living memory, with the deficit rising, costs spiraling, and GDP shrinking. People were losing their jobs and, quite obviously, feared very much for the future.

It was vital, therefore, that we immediately sent out a long-term economic plan to put this right, securing Britain’s future. Yet, from day one, people had to be at the heart of the plan. Economics alone is not enough, vital to what I believe is a shared vision between our two countries of a freer, fairer, and more compassionate society. A society where everyone has an equal opportunity to live an independent and fulfilling life and a society where responsibility for yourself, for your family, and for your community is valued and instilled from day one.

The importance of welfare reform in achieving a society like this is the topic really of my speech today. And I’m immensely grateful to the AEI for having been so generous for inviting me here to do it.

So let me start by taking you back to 2010 and the current U.K. government, when it entered office, at the beginning of a process of change. For many years, I had believed that whilst the U.K. economy had undergone a complete overhaul over a number of years, freeing up markets and moving power away from the state, for too long it was assumed that a renewed economy alone would do the trick of creating a more prosperous and cohesive nation.

It was JFK who once said, and I quote, that “a rising tide lifts all boats.” Yet, that philosophy fails, if some of those boats have holes. The reality was that without a clear vision for social reform successive governments have allowed too many in our society to sink. The top and bottom drifted ever further apart. In the U.K., under the last government, far from everyone being buoyed by our economy, a quarter of the working age population was economically inactive and millions languished on out of work benefits.

In visit after visit to some of the most deprived areas of Britain, prior to being in government, I came to see how they had become places without hope and without opportunity. In neighborhoods blighted by worklessness, where gangs were prevalent,
debt and drugs became the norm. Families broke down. Those living there had one thing in common: they were for the most part dependent on the state for their daily needs.

Income inequality was the worst for a generation and whilst the middle class majority were aware of these problems that existed in poor communities, they remained largely unaware or uninterested in the true nature of life on some of our estates. I can’t help wondering, as a friend and an observer, if the U.S. is facing – the AEI has vividly described as the two Americas crisis – isn’t at risk of something similar happening here.

For a number of years, I came to believe that the root of this problem was that for too long conservatives had abandoned – as a conservative – conservatives had abandoned the subject of poverty to the poverty lobby and to the liberal left. Historically, perhaps, our main contribution to the subject was whenever conservative politicians did speak about poverty, they did so with fingers wagging and harsh, punitive language.

In the U.K., my party, the party – I remind us – of Wilberforce and of Shaftesbury, seemed to have forgotten that we had always had a historic mission to help people improve the quality of their lives, and not just taking an easy option of sustaining people in dependency whilst looking the other way. For while some on the left would have it, that sympathetic approach is to prop people up on a slightly better set of incomes, in reality, there is nothing laudable about handing out money if in doing so it labels individuals as incapable or stops them then moving into work. It means parents are better off living apart than together. It means it places families in housing that they could never afford if they took a job.

In the U.K., the previous government spent more on welfare than ever before. Bills rising by 50 percent, paying out over £175 billion. That’s $250 billion in just seven years on income transfers to families and children, much of it unrelated to any drive to go into work. Yet, it remained that countless billions of that money were wasted over the years, spent with the best of intentions – and I don’t doubt that – but without making any measurable improvement to people’s lives. Above all, such a strategy failed because it mattered not just how much government spends, but how it spends it and, most importantly, what impacts our spending after that money is gone. And whilst the welfare check will, of course, protect against hardship, it can never substitute for a loving parent, an inspirational teacher, or a hard-earned paycheck.

Thus, as conservatives surely our purpose must be to show, far from wanting to punish people, our vision is one of transforming people’s lives. Defined not by what we oppose, but what we stand for, putting hope back where it has gone, and aligning aspiration with hard work spurred on, I believe, by strong moral values of fairness, opportunity, and of course, compassion.

So in the U.K., it is to this end that we have undertaken the most significant welfare reforms in modern times. No longer government putting money in maintaining people in dependency, but instead achieving some meaningful outcomes at the other end,
through a welfare system that allows everyone to take their life into their own hands, given an opportunity to achieve and take pride in that achievement from those decisions.

In the event, another American president, Theodore Roosevelt said, and I quote, “Far and away, the best prize that life has to offer is the chance to work hard and at work worth doing.” So no one, whatever the difficulties they face, should be in any doubt. Their ambition to shape and control their future must be theirs. Welfare should be, I believe, a journey that people are on, not a destination where they stay. And that is why in Britain we have capped benefits at average earnings, so that families on benefits face the same choices about where they live and what they can afford as everyone else, ending, I believe, the perverse incentive to remain on welfare as a way of life.

It is why we are reforming disability benefits, not just aimed at saving money, but saving lives, rightly helping disabled people to meet the extra living costs they face, but making sure they won’t lose that money if they do take up a job. And it is why, also, we have introduced what we call the Claimant Commitment, a contract of work which all job seekers must sign up, setting out their responsibilities in return for support and the sanctions they will face if they fail to meet those requirements. All of this in bringing an end to the something-for-nothing culture that trapped people for too long.

And yet, across all the changes we have made above all in achieving this cultural shift is universal credit – rolling out a new benefit system gradually across the country, replacing out of work benefits and in work credits with a single, simple payment. Universal credit is the greatest reform of our welfare system, for it is the universal credit that ultimately ensures that in every case work always pays more than being on benefits. And what’s more, such as the system that we have created that under universal credit, if you do the right thing, if you take that job, work as much as is expected of you, then you will move out of poverty. The figures now show that.

This is dynamic change, both push and pull into work. Leveraging the two together is vital, for one without the other and you risk that money and support is given out, but without any expectation that individuals do anything in return, nor any mechanism to put pressure on those who could be doing more to help themselves.

In the U.S.A., the advent of TANF marked an important step towards the statutory link between benefit checks and work requirements, yet as an observer I would suggest that the same reform hasn’t reached other parts of the system. Take Food Stamps, nearing 50 million recipients, but with waivers and loopholes, which mean that few are expected to do anything in return.

And by contrast, in the U.K., our reforms are about establishing a new welfare contract with the people of Britain. On government’s part, we will invest in targeting our support on those who need that support the most and in restoring work incentives for the rest. For taxpayers, we will restore fairness and for those receiving state support, this is our commitment. Where once welfare was a way of life, now you can be sure that work
will pay, meaning the right choice is also the logical choice. The opportunity now is yours, as I say, to make that choice a fair contract which lifts people out of poverty.

Across the U.K., even already, I believe that we are realizing impact of this cultural shift and improving jobs market where no one, I believe, is left behind. And as the OECD said recently – I think it was last week – and I want to quote this, “The United Kingdom is a textbook case of best practice on how good labor and product marketing can support growth and job creation.” This was confirmed by the Bank of England with the explanation in one of their quarterly reports, and I quote again, “that a tightening in the eligibility requirements for some state benefits might also have led to an intensification of job search.”

In other words, it is this process, everything we have been doing, every reform we have been implementing which has been about getting Britain working. And now, the results, I hope, are clear to see, 1.85 million more people in work, bringing the U.K.’s employment rate to the highest ever, at 73.2 percent, in the latest national figures above pre-recession levels and in contrast, I think, to the position here, which remains at 68.5 percent. And with the best performing labor market in the G7 over the last year, in fact, in the U.K. we now have more women in work than ever before, more lone parents in work than ever before, more older workers than ever before, and rising employment for young people and disabled people as well.

At the same time, unlike in other countries, in the U.S., particularly here as I’m here today, where people have fallen out of the labor market, in the U.K. economic inactivity is down to pre-recession levels and falling. And we have seen workless households fall, and this is probably the biggest single point. As we have seen workless households fall by 700,000 since 2010, now to the lowest level since records begun.

Remarkably, there are now 270,000 fewer families living in public housing without work. In turn, bringing the proportion in public housing where someone does now work with a breadwinner and a role model to the highest since records began. This is welfare reform, I hope and believe, in its true sense, delivering a positive life change, which drives down demand for welfare, reducing the cost of social failure in the process. And as a result, our reforms are forecast to save over this parliament some 50 billion, some 75 billion cumulatively over five years of government.

Working age benefit bills have fallen and even whilst paying more to protection pensioners, overall growth in the welfare expenditure over this parliament is at its lowest since Britain’s modern welfare state was created. This, I think, is a remarkable turnaround in what could have been described in the past as the reckless spending. Yet, there still remains a final question when it comes to government spending. How to make sure that every pound or dollar that we do spend goes on life change that we want to see? And the answer, once more, is about a relentless focus on outcomes, not inputs.

We have to reject, I think, the old tendency of politicians, particularly like me, to pour money into programs, but with no care for the results at the other end, often locked
in the idea that I won’t be there anyway, so let’s just be seen to be doing something. And that reminds me of how often we’ve ever heard that refrain: government ought to do something. This, I have to tell you, is the classic and irresistible invitation to a politician to take action. Money is found, a program is invented and, well, that’s the point really, isn’t it? Doing something has seldom been the same as solving something.

So unsurprisingly, the history of such programs is of great hope, followed by embarrassing failure, with taxpayers carrying the risk when they failed, government setting up targets, which tell them they did something for public consumption, but the real target, the person whose life was trapped, is forgotten. And as we bring welfare bills down through supporting more people to move towards a better outcome, onwards and upwards in life, equally we must spend our budgets wisely on programs that deliver the life change that we want to see.

This, then, has been the other side of the welfare revolution in the U.K., opening up a whole new dimension of government spending, one focused solely, and I stress the word “solely,” on the impact that our interventions achieve. In the first instance, this has to be underpinned by our pioneering use of payment by results. Notably through the work program, the largest back-to-work scheme of its kind that the U.K. has ever seen, using a payment by results model, providers that provide the help bear the risk up front and the up-front cost, taking the burden off the taxpayer.

Government then pays out for the results that are then achieved with the biggest rewards for supporting the hardest to help into work and sustaining them there. And the critical phrase there is “sustaining them in work.” Government pays out all that money for those outcomes. And for those completing a tear on the work program, employment outcomes are now far outstripping expectations when we set the program up. In each case, a positive outcome that equates to reducing the cost of social breakdown.

I often say that almost anybody can get somebody a job and into the job. It takes real skill to ensure that they stay in work; and in staying in work, they get what I call the work habit. That is to say, they learn what work is about. It’s not just money, but it’s about your life. It’s about developing your life and never wanting to be out of work again. That is why we pay them after an outcome of sustained work, not just the entry into work point. And this is the key.

I believe when we look at this, to the future of government social policy, recognizing that in fact any improvement in a social problem comes with a value attached as government pays out less for costly remedial action as a result. And this is something that policymakers I hope here will understand as well, and some do. I know Todd’s to follow later. Just take the work to evaluate the quality of social programs in Washington State, assessing the return on investment, drawing up a rank list of programs that work and thereby enabling a more efficient use of taxpayer dollars.

In the U.K., we’re taking the same principle, but taking it a step further, now using it to open up a whole new mechanism for funding social interventions. By putting a
monetary value on a given social outcome and underwriting the return, the return on the investment, government, I believe, can allow these investors to buy into what we call social bonds. If the program delivers the outcome, investors see the return, whilst government pays out not for the process of tackling the problem, but for success at the other end and only success at the other end.

And already the U.K., I believe, is a world leader in putting this principle into practice with, at the moment, some 24 social impact bonds up and running in the U.K. Ten of them were financed deliberately by my department in a thing called the Innovation Fund, which I set up four years ago. And this for me has proved the concept with cutting edge programs seeing a return on investment through positive educational and employment outcomes for some of our hardest to reach young people.

So in a sense this is a big change, but in establishing social impact bonds more widely, where the U.K. government has done a lot to put the infrastructure in place, creating big society capital, the world’s first social investment wholesaler, and introducing a social investment tax relief, which could generate up to 750 million over another five years. Without doubt – and I really do believe this – without doubt, there is still much more to do if we are to realize the full benefit of this nascent market. Yet I believe the potential is enormous with social investment standing to make the single most significant difference to how governments fund and deliver social services in the years to come, not just through a more efficient use of taxpayer pound or dollars, but in growing the money available for social programs beyond government philanthropy alone.

Harnessing investment from businesses, trust funds, entrepreneurs, and more, groups who might never before have seen themselves as part of a positive social action. And with it, that money brings the rigor, the discipline of the private sector and the innovation of our most savvy entrepreneurs, as well as what I call the fidelity guarantee, an assurance – to use a British phrase – that what you pay for does exactly what it says on the tin, nothing more and certainly nothing less.

This value of this program and this guarantee cannot and should not be underestimated for it is an internal revolution in the culture of the way that the civil service will operate. For it stops what has so often been the downfall of social programs in the past. That in implementing a program that is proven to work, it ends up being modified halfway down the chain, tinkered with to the extent that the program you started with isn’t exactly the program that is delivered. Every person involved adds something, subtracts something, changes something, delays something.

But with the social impact bond, on the other hand, if the project ends up being changed, no result means no payout, saving money by ensuring that the successful programs are delivered properly. And this puts a discipline in the delivery of that program. Actually, if you don’t do it right, you withdraw and close the bond. Nothing tells those operating it more that they would be spotted for their failure. This is the key to the change.
And what’s more, social investment shows up in government finance because the whole premise is of return, of outcome, linked to a meaningful process, be it getting someone into work or into rehabilitation or off the streets, remedial education or more. Over time, it is my hope that this will turn the tide in the whole culture of government spending, no longer pouring money in and hoping with fingers crossed for the best or maybe that we won’t be there when it doesn’t work, but commissioning outcomes and paying actually for what works. Every pound or dollar for life change is the comment that I constantly make. That should be the opportunity of a lifetime.

And if we can get this right, it has something else about it. I believe the effect of this social investment, coupled with the welfare reform program that I was talking about earlier, the effect of that could be dramatic on society. In the U.K. and in the U.S. alike, the disparity between the top and the bottom of society has prevailed and in a sense has grown for far too long. Whether it’s to do with housing policy, welfare policy in general, or the disparity between incomes, we have a group of wealth creators at the top who have little or no connection to those at the bottom. Yet, in so many cases, what divides the two is little more than a different start in life.

I believe social investment gives us an opportunity to lock not just wealth back into our most disadvantaged areas and improve the start in life, but something really important as well. Just imagine, just imagine a society locked like this down with depressing outcomes. Then, just imagine a social enterprise working in a particularly deprived neighborhood, be it in London, Washington, Glasgow, or Chicago. Investors buy into it because of its return on investment is proven and qualified. As with any other investment, they will all want to see that investment flourish. You don’t put money in for no reason. You want the money that comes out. And because they are risking their money, money that could otherwise be reaping a return elsewhere, those investors will want to see that social program succeed, taking an interest in that community where they would otherwise be totally detached. I know this because this is happening already in the bonds that we have been bringing through. Those investors actually visit some of these locations to look at the outcomes.

So think about that. Otherwise, they would have been detached from those communities, brought back at last and suddenly into contact with our most disadvantaged individuals and families for mutual benefit, and I stress for mutual benefit, a very strong conservative theme. And for too long what is lacking in these areas is not just the money, but hope and aspiration, the belief that the cycle of poverty can be broken. Thus those wealth creators could have a powerful influence on the communities themselves, a human interface between the two polarized worlds, bringing success to the doorstep of failure and two ends of our society closer together, reuniting in Britain, as I call it, the city with the inner city, or here perhaps reuniting Wall Street with the Poor Street.

This change will not be achieved overnight for since our aim is meaningful cultural change of society and of government hand in hand, in a way that restores people’s lives and effectiveness in public spending at the same time, by necessity our focus must be the future of our nation, not tomorrow’s headlines. For too long, politicians
of all hues have been too focused on the short-term political gain, chasing quick winds or pandering to immediate interests.

Our most pressing social and economic problems have built up and up almost to breaking point. The cost of crime, poor health, and immigration, they all start here with the same families. Rather than waiting for the next generation to pick up the pieces, now, I believe, is the time to face those challenges head on, ensuring that the workplace revolution that we’ve embarked upon many decades ago is underpinned by long overdue social change to meet that demand. After all, a modern, prosperous economy and an able and willing workforce go side by side – something we cannot achieve if one section of our society is trapped in dependency, unable to make the positive choices that would free them and their children from that welfare net.

In the U.K., as in the U.S.A., we have a long history in which universal values of personal freedom and independence are enshrined. We must give back to those on the margins the freedom to choose and the opportunity – the opportunity to transform their lives, offering the hope of a more productive society and a more cohesive one at the same time now and I believe for generations to come. Thank you. (Applause.)

ROBERT DOAR: Thank you very much, Mr. Secretary of State. My name is Robert Doar and I am the Morgridge fellow in poverty studies here at AEI. And we’re very honored to have you here, Mr. Secretary of State, and a very distinguished group of guests to talk about this. I said to the Secretary of State, you know, your policies and your changes are the talk of the town in Washington. Universal credit, pay for performance, it seems to be almost a little bit of a Beatlemania thing going on in Washington. And our first guest to respond and to talk about whether these changes in ideas have application here in the United States is one of the leaders of the efforts to bring some of these ideas to our welfare system in the United States. And that is Todd Young, who is the United States representative for Indiana’s Ninth Congressional District.

As a member of the House Ways and Means Committee and its Subcommittee on Human Resources, he has been deeply involved with anti-poverty efforts in Congress. Chief among those efforts is the Social Impact Partnership Act, formerly the Social Impact Bond Act, a bipartisan bill he co-authored with Representative John Delaney, a Democrat from Maryland.

Young spent 10 years in the military, first at the United States Naval Academy in Annapolis, and then as an officer in the United States Marine Corps. Before coming to Congress, he worked as a legislative aide to Senator Richard Lugar. We’re very honored to have you here. We’re grateful for your presence. Tell us what you think of all these changes coming from the U.K. Thank you. (Applause.)

REPRESENTATIVE TODD YOUNG (R-IN): Well, thank you much. Thank you so much, Robert, for the generous introduction. I want to thank Arthur, for your leadership here and really just offer my appreciation to AEI. In a town with a whole lot of ideas, many of them bad, circulating around, consistently AEI provides a forum for
intelligent conversation and development of serious policy ideas, and a forum where compassion – compassion for those on the margins of society is embraced and celebrated. So thank you very much for inviting me.

You know, Americans, we tend to speak at great length and with incredible frequency, I think increasing frequency, when times are tough, of the American dream. It means something perhaps slightly different to whomever you might speak with, but I think in general implied within the American dream is defining one’s own destiny, achieving happiness, through Arthur’s formulation, through earned success, and doing whatever one can to realize their full human potential.

Contrary to the popular sentiment here in Washington, I have to say, as I go back home and I talk to people who don’t spend a lot of time in Washington, D.C., the American dream is perceived to be alive and well. The American dream sort of resides in the breast of every American and it’s something that every child embraces, something everyone grows up embracing and celebrating. But in recent years, there has been a growing sense of pessimism I think that we all have to acknowledge throughout this country about what I’ll call the American promise. The American promise is this idea that anyone can fulfill the American dream.

So the question that I would put before us is how we might ensure the dream translates into reality for all Americans. I would have to begin with JFK’s formulation that a rising tide lifts all boats, agreeing that boats need to be patched from time to time. As for tide raising, most of us in this room understand that tide raising isn’t something that’s conjured up from London or Washington, D.C. Instead, you establish a general framework where entrepreneurs, innovators, and hardworking rank and file Americans can go out and improve their own lives, pursue their own self-interest. And those policies are generally understood to be free trade, establishing and protecting property rights, making sure that we have a stable rule of law, legal system, and so forth. This is the free enterprise system.

But boat patching is really what this conversation is all about. How can we do a better job of ensuring that everyone’s boat can rise with that rising tide? Let’s begin by viewing every person as an asset and not a liability. Freedom requires us to see people as wanting the opportunity to earn their success, not as passive recipients of government programs. So I’m envious of the secretary – I have to admit, I’m envious of the secretary and in the context of welfare reform, your different form of government, I wish the House of Representatives could direct Health and Human Services to change their welfare policies. But we have a somewhat different form of government and I applaud your boldness and all the successes you’ve had over there.

But I think what I can most offer to this conversation is to try and distill some general principles from your presentation and what has been learned there and maybe even borrow some ideas. So that’s what I’ll be doing.
The first principle is to make work pay, something the secretary emphasized. We want to make sure that joblessness never pays more than employment, quite simple. Second, pay for what works, pay for results, pay for success, however you want to style it, we have to look at the evidence and insist upon evidence where it doesn’t currently exist, develop that body of evidence, so that we can pay for what works.

And the third principle that I think we ought to be emphasizing is looking at individuals holistically. We’re complex animals. Each of us has our own talents and aspirations and challenges. And to the extent we can look at the whole individual and personalize and individualize the services we might offer that individual, so that they too can earn their success and pursue happiness, that’s something we need to be doing.

So I’ll offer some specific policy solutions to advance each of these principles. Under the first principle, making work pay, I think we should expand the Earned Income Tax Credit to childless workers in this country. EITC is one of the federal government’s most effective anti-poverty programs. It makes families more likely to work by increasing work’s rewards and it brings people into the labor force that might not otherwise find themselves working. Seeing as labor force participation among young adults has dropped precipitously in recent years, expanding the EITC to childless workers makes eminent sense.

The second principle, paying for what works, I’d begin by recognizing that we have the most vibrant civil society in human history in the United States of America. What Tocqueville celebrated many generations ago still exists, our not for profit community, our churches, and beyond. This is where social impact bonds or social impact partnerships, as we’re now calling them, can come into play. With a growing evidence base of success that exists among these various interventions that are offered by not-for-profits in the main, but also by religiously affiliated organizations, even by many states and local governments, by harnessing that evidence and scaling up what works with philanthropic capital, as was laid out before, we can fundamentally improve lives and help people earn their own success.

And I would emphasize that this doesn’t have to be regarded – the social impact bond model – as an instrument merely to get people back to work. There are other social pathologies that can be addressed through this instrument. We can get people adopted out of foster care more quickly. We can help address infant mortality, a serious problem in my own state and in so many other states. We can help address chronic homelessness and then move to interventions that will help move people back into the workforce. The social impact bond or partnership model is ideally situated to address each of these things.

And the third principle I would emphasize is we have to look at these individuals holistically. And what I mean by that is not programmatically. Currently, our social support system is a complex network of overlapping programs with different eligibility criteria and different phase out rates. Chairman Ryan’s Opportunity Grant Pilot Project
proposal is designed to address this issue. That proposal consolidates several means tested programs into a single flexible system that gives our states the ability to tailor services to individual needs and circumstances.

No longer, I would emphasize, should we regard people as passive recipients of government programs. Instead, we should formulate and implement personalized plans to move a person off welfare and into work.

So our charge is – as Martin Luther King once indicated, our charge is to service custodians of hope. Let’s be hopeful, happy warriors. Let’s go out and give every boat a chance to rise with the tide, to renew the American promise. I know there’s a lot of people that are currently working on these – what were once regarded as intractable issues. I would invite all of you to engage our office, to work with me, so that together we can help renew America’s promise. Thank you. (Applause.)

MR. DOAR: OK, this is a lively discussion with a lot of little choreographing going on and I apologize for that. But I think the Secretary of State would want a kind of lively debate and discussion, and so we’ve had the pleasure and the honor of inviting some of Washington’s best experts on these issues.

So we’re going to have – and what we’re going to do is we’re going to have the three experts comment on what they’ve heard so far and it’s applicable to the United States, might have a little repartee back and forth among them, and then the Secretary of State will respond to that. And then, I may ask a question, and then we’ll open it up to the crowd.

So – but let me just introduce our guests. On my – next to the Secretary of State is Richard Reeves, who is a senior fellow in economic studies at the Brookings Institution, also a policy director of the Center on Children and Families, and editor-in-chief of the Social Mobility Memos blog. His research focuses on social mobility, inequality, and family change, but most interestingly for our discussion today, before joining Brookings, he was the director of strategy to the United Kingdom’s deputy prime minister. So we brought in a ringer for this discussion.

Next to Richard is LaDonna Pavetti, who is the vice president for family income support policy at the Center on Budget and Policy Priorities. In this capacity, she oversees the Center’s work analyzing poverty trends and assessing the nation’s income support programs, including the temporary assistance for needy families. Before joining the Center, in 2009, Pavetti spent 12 years as researcher at Mathematica Policy Research Inc., where I first met her, when I was the commissioner of Social Services in New York State. We’re honored to have you, Donna. Thank you for being here.

And then last but not least is Michael R. Strain. Dr. Strain is the deputy director of economic policy studies and resident scholar here at AEI, where he studies labor economics, public finance, and applied microeconomics. His research has been published in peer-reviewed academic journals and in the policy journals “Tax Notes” and “National
RICHARD REEVES: Five minutes?

MR. DOAR: Five minutes.

MR. REEVES: OK, great. First of all, it’s a great pleasure to be sitting next to the Secretary of State. As a political advisor in the U.K., you’re always obliged to work behind the scenes, so it’s exciting for me to be able to be publicly talking about it. And I also would like to thank the Secretary of State for stressing that it is coalition government in the United Kingdom. I worked for the Liberal Democrat Party, which was the other party within the coalition.

I’m going to answer four questions very briefly. Is the universal credit and some of the other policies that have been mentioned good policy for the U.K.? To which the answer is yes. Is it good politics for the U.K.? To which the answer’s yes. Are there policy lessons here for the U.S.? Some, but less from universal credit than from the other areas. And then lastly, and perhaps most importantly, are there political lessons for the U.S. from the U.K.’s welfare reform program? And there I would say, you bet, especially for politicians on the right. And I’ll say a bit about that.

So to start with is it good policy for the U.K., universal credit certainly is and that’s one of the reasons why it enjoyed the support of the Liberal Democrat Party and my boss in particular, the Deputy Prime Minister. Within the government and in fact within the coalition government, there was another coalition, a coalition formed of ministers of both political parties against the real enemy, which is of course Her Majesty’s Treasury. (Laughter.)

And so we supported universal credit for a number of reasons. One, it tackles the problem housing benefit in the U.K. system. A friend and former occupier of the Secretary of State’s post, James Purnell, when he asked government, I asked him to say in two sentences what was wrong with the British welfare state. He said, I can do it in two words, housing benefit. The incentives were very bad aligned and universal credit deals with that. Secondly, it creates a flexible conditionality regime, which I think is very important. It means that you can actually flex the conditionality around the circumstances of the claimant, so depending on the age of the child, for example.

Thirdly, it pushes further towards the norm of paid work, partly by incentivizing people to work shorter hours, as well as longer hours. And lastly, it simplifies the interaction of the claimant with the system. And given that mostly, most of us are simple creatures, simplifying is very, very important. It’s actually five benefits. I put them together. So good policy pretty much all around.
Is it good politics, my second question? Yes, it is good politics. Why? Because it chimes the popular concerns about welfare dependency, because it explicitly promotes work and demands work search. And there’s also another element to the reform, which is a benefit cap, capping benefit claimant’s median household income that is wildly popular. Most people think that actually you shouldn’t be able to make more on welfare than in work, than a median person does in work. So it’s good politics, too, and there are lessons here for U.S., too.

Are there policy lessons here for the U.S.? Well, I think less from universal credit, from the other elements. Universal credit, whilst I strongly support it, is actually kind of a long way behind the U.S. in terms of conditionality. The U.S. has already moved to much tougher regime in terms of conditionality in the 1990s. Secondly, work incentive problems in the U.S. welfare system are nothing like as great as they are in the U.K. EITC, in particular, does a really good job there. The problem of housing benefit doesn’t apply in the same way in the U.S.

The U.K. reformers required very serious centralization, not least pulling housing benefits in from local authorities. And I think the policy debate in the U.S. is leaning the other way. And it has, of course, required a very, very large central government IT project, which is not always popular.

So I think there are some lessons from the other parts of what the Secretary of State mentioned, however. And I would particularly mention the simplicity one. I do think that getting front to end simplicity, even without huge systemic reform, is important. The work on social impact bonds, where I think the U.K. can claim to be a leader, I think, again, is incredibly fruitful area for the U.S. to lean on.

And then, last but not least, I do think the U.K. has done a pretty good job of leading the charge for evidence-based policymaking and a move away from what we usually get, which is policy-based evidence-making. (Laughter.) Here’s a policy – I’ve spent a lot of money on it. For God’s sake, find me some evidence that it works. (Laughter.) And I think the U.K., under Labor, to be fair, but also now under the coalition government, has done a really good job of pushing towards being clearer about the outcomes. You know, you can talk about restoring opportunity, but unless you can tell me what that will look like and how you’re going to measure it, you’re really just using words.

So what are the political lessons there? My last point. Well, I think there some quite significant ones. I’ll mention three. The first is it’s better to try and do these kinds of reforms when you’ve got more money, rather than less. It has been a challenge to bring about these reforms whilst also trying to reduce spending. There were opportunities under the previous government to do this kind of reform, not least in 1997 and 1998, when Frank Field, minister for Welfare Reform, he was actually shadowed by Iain Duncan Smith, wanted to do something quite similar and the idea was killed by – guess who – Her Majesty’s Treasury. And that would have made it a little bit of an easier process.
We’ve been constantly fighting against a base line. So better to do it when times are
good, rather than time’s up, if possible.

Secondly, and here I’ll talk a little bit about the Secretary of State’s own personal
journey, how did this change happen politically. It’s very important to understand that
Iain Duncan Smith very publicly went on a kind of discovery exercise of really learning
about kinds of poverty and told very compelling stories about how he himself had been
influenced by that. Then, he looked around the think tanks and didn’t really find solutions
that he thought would work. So what did he do? He created a brand new think tank that
basically came up with the idea of the universal credit.

He worked very closely with the director of the think tank and then brought
Philippa Stroud, who’s sitting in the audience today, into government to help actually
build the universal credit. And it will still only be in place after the coalition government
has finished at least its first term. Who’s to say there won’t be a second?

And so just kind of telling it as a story, this has been a 15-year journey, right?
This wasn’t made up on the back of an envelope in government. This is something that
the Secretary of State has been working on for a very, very long time. So just thinking
about how change actually happens. And then, last and I think perhaps most of all,
motivation really matters in politics. And what Iain Duncan Smith has managed to
convince those of us, even those of us of a different political stripe, even those on the left,
is that he’s genuinely motivated by a concern for the poor.

As he said in his own remarks, conservatives had abandoned the subject of
poverty, other than to wag their fingers and be punitive. And so the actual motivation
around reform is very, very important. This is not just about cutting welfare. It’s about
reforming it and actually kind of loosening that idea that in the end, deep down,
conservatives are just against welfare, full stop. And if people have that gut feeling that
conservatives are just against welfare and probably kind of against the people who claim
welfare, too, they will never be credible reformers. And so that journey where you can
persuade people that it’s quite serious this concern is very helpful. And I hope the
Secretary of State wouldn’t mind me mentioning that actually his own faith, I think, has
been an important part of this story, too, and the compassion that he’s based on his own
explicit Christianity, which is probably easier to talk about here, funny enough, than it is
back at home. He lends huge credibility to this story, right?

And so I offer you the idea that actually if you have a very strong faith that’s
leading to this compassion for the poor, and that’s the structural underpinning of the
policy work that you’re doing, it is better not to hide that fact from the electorate. It is
better to share that fact with the electorate. And perhaps you can think of one or two
candidates who could have learned that lesson in a fairly recent American political
history. Thank you.

LADONNA PAVETTI: OK, so I’m going to take a bit of a different tack here.
What I’d like to do is focus on two key aspects that Secretary of State Smith made in his
First of all, I would like to sort of start prefacing this by saying I think that often what we do when we’re talking about reform is we focus on work band aids and we focus on work supports. And in doing that, what we end up doing is we ignore the complexity of the task that is really before us, which is really about transforming people’s lives. And I believe that it shouldn’t be a discussion about services or safety net, but how those actually work together to support one another to really be able to bring about that transformation.

So what I – actually I would like to pose questions that we can maybe talk about during the conversation, and that is if in fact the reforms in the U.K. have led to that transformation, how that has happened. Because I think if you look in the evidence in the U.S., we don’t have evidence of transformation. And I would just give you a few statistics. So we often focus on welfare reform as our marker that we can do better for people’s lives. And I would just like to tell you what the statistics are from two of the studies that are used as evidence that welfare reform worked.

So one is the Riverside GAIN program, which Riverside GAIN is often used as the exemplar for why Work First is a model. And what Work First accomplished was that it was able to get 26 percent of the participants in that program into stable employment. So people who had earnings in four quarters. So 26 percent to me seems like a pretty low bar. And then, if you look at Portland, Oregon, which is a mixed model, so it had Work First, but it had also allowed people to go to training and it’s the program that actually increased people income the most of the studies that we have. That program did better. It actually had 38 percent that ended up in stable employment. But that still means that the majority were not stably employed, and I wonder what would have happened if there wasn’t a SNAP safety net, other safety nets there for those families.

In contrast, a program that we don’t think about or hear about that much is a program called Building Nebraska Families, which was a much more intensive and I think truly transformational project. And what that project did was it went into people’s homes and it worked with people around setting individual goals, so really focusing on the individual sort of needs and aspirations of people, and really put into plan an individual plan for how people could achieve those goals.

What happened in that program is much different than what happened in the programs that were cheaper and focused on much more of a Work First model. There, for the group of families who had the most significant challenges, the people who are often left behind and for whom our work programs don’t work, 49 percent of them actually had employment in 12 months consecutively. They also were more likely than people who didn’t get those services to have better jobs, to have jobs with health insurance. And the difference is that that program was not cheap. That program cost $8,000 per participant.
So I think it’s a challenge of saying if we’re serious about transformation, where do we get the money and where do we get the commitment to do what is necessary? I think the reality is that many people who live in poverty, there’s some people who need very little. They’re in poverty because they lost a job and they will be able to move into a job quickly when the economy changes. But there is also a group of families who have had a series of life experiences that have not prepared them for the labor market. So they may have mental health issues. They may have very limited education. And so there really is a different starting point to get those people to move into employment.

So I think that we have to be realistic about what we think we can achieve and what it will take to achieve that. I am all about really sort of helping people to move into the labor force. It’s what I spend my time doing. But I think that we’re not – we don’t grapple enough with how hard that work is and what it is to make it serious.

And just very quickly, I just want to talk about outcomes. I, too, I think that we should have a relentless focus on outcomes and impacts. But I think we have to have a serious conversation about what are the outcomes we’re looking for and what are – how will we know when we have success. So we’ve called welfare reform a success with those outcomes I just mentioned. And is that really what we hope to achieve or did we want to achieve something better than that?

And we also tend to point for – in welfare reform, what we had was a very steady increase in employment among single mothers for four years. And for the last – since 2000, for the last 12 years, that has been on a steady downward trajectory. So it’s hard for me to sort of think about why we continue to talk about welfare reform as an unmitigated success when there is much more to learn there about what worked and what didn’t work to be able to do better in the next round of whatever we do.

So I think we have to be clear again on what outcomes are we looking for and how do we measure those and how do we not give credit for reforms, for outcomes that would have been achieved, for changes just like we’re in now. You know, if we don’t do anything, we will probably see our SNAP case go down dramatically because the economy is improving and many people are in there because of the problems in the economy. So I think we just have to really grapple with what do we – what do we want to achieve and how do we achieve that.

MR. DOAR: Michael.

MICHAEL R. STRAIN: Well, thank you. It’s an honor for me to be here. And thank you all for taking some time and come. Thanks especially for Mr. Duncan Smith for coming. It’s a real honor for the American Enterprise Institute to have you here and you’re welcome here anytime and we hope it’s not too long before you come back again. Part of the curse of being the fifth of five speakers is that you guys may be starting to get a little antsy, so I’ll try to keep this brief. It’s especially tough when the previous four speakers were as good as what we’ve seen.
Robert asked me to just give some reactions to the Secretary of State’s speech and I will. And that may be a little disjointed. But I think there was really just so much wisdom in it for the United States, also for the United Kingdom, that I was struck by nearly every sentence I said.

I was struck that both the Secretary of State and Congressman Young quoted President Kennedy that a rising tide lifts all boats. And they both made the same point that that’s not the case if some of the boats have holes. And I think that we need to recognize that a rising tide is a very good thing. And conservatives have been very good at recognizing that. And public policy should be designed to help the tide rise, but we can’t lose sight of the fact that some of those boats do have holes. And we can’t lose sight of the fact that we need to have targeted policy interventions to help people who really truly do need help. And here I think about, in the United States, workers without a lot of skills, children born into bad conditions, the vulnerable in our society that we all know about. And I think that the American right could do a better job at acknowledging that that’s a problem and in coming up with conservative solutions to those problems, solutions that are different than the solutions of the left in important ways, but solutions that are designed to help with that.

The Secretary of State mentioned that conservatives had abandoned the subject of poverty to the left, focusing their energy on other issues. I think that that’s an overstatement in the United States, but I do think that there is some truth in that. It relates to much of what I just said. Conservatives on the right say if we create the conditions for growth, then that will help everybody and it will help most people, but there need to be some targeted policy interventions to help some people for whom that isn’t true.

I was struck that the Secretary of State parenthetically mentioned William Wilberforce and Lord Shaftesbury. And I was very pleased by that because those are two of my favorite conservatives and they often get overlooked. I’m sure most of you know that Wilberforce thought to end the slave trade out of a deep sense of compassion. He was pressed into it by the British prime minister, but he had a deep sense of compassion and of moral duty to the most vulnerable people in the society.

Lord Shaftesbury fought against terrible working conditions. He fought against child labor and he fought against terrible conditions in the slums of Great Britain. He said, “I feel that my business lies in the gutter and I have not the least intention to get out of it.” And I think that that type of attitude is a deeply conservative attitude. Lord Shaftesbury and Wilberforce were very compassionate, but the way their compassion was manifested was that they had a deep desire to help people help themselves to rise from their conditions. They did not really – they did not believe that a technocratic government that could turn a lever here and turn a lever there and all of a sudden everything will be better. They were horrified by dependency. They would not have supported indefinite handouts, but at the same time, they did not ignore the major social and economic problems that were facing their country. And that I think is a lesson for the American right – not to ignore the major social and economic problems facing our country. And instead employed conservative solutions to help people rise.
The Secretary of State said that work really is the key and I think that it is, and that the goal was to transform lives by empowering people to flourish and providing them with the dignity that only work can provide. Toward that end, as the Secretary of State said, we should think of welfare as a journey, not a destination. I think that’s really a very insightful way to think about it – that welfare should be part of someone’s life, but it shouldn’t be where they end up. It shouldn’t be where they stay.

Finally, Secretary of State said the safety net should both push and pull. And I think that’s also a very helpful way to think about it in the American context. We need to do both. In the United States, that means reforming our Social Security Disability Insurance program to make sure that it’s not a trap that people spend their entire lives in. It means strengthening work requirements. If you are an able-bodied person with no dependent children at home, then to receive food assistance, you should be engaged in some sort of work activity. But it also means putting in place policies that will help people in a positive, rather than a negative way, things like expanding the Earning Income Tax Credit, that Congressman Young mentioned, tearing down occupational licenses, creating the infrastructure that low income Americans need, and private sector entrepreneurship.

I’ve had the pleasure to speak with a number of very small firms, two or three people, that are engaged in the business of matching unemployed workers with firms and providing them the skills they need in order to succeed in those jobs. And to see the private sector come forward and play a role here is something that is very heartening and that I hope we see more of because this is a social problem. Government certainly shouldn’t be absent from it. Government has a major role to play, but not the only role. And I think that the Secretary of State’s social impact bonds are a good manifestation of that. So thank you.

MR. DOAR: So Secretary of State, any reactions to these reactions to your speech?

SEC. SMITH: Is this on?

MR. DOAR: You have to push the button right there.

SEC. SMITH: There we go. Thank you. Fine. First of all, it’s not fair really to be here today and have Richard sitting next to me. He knows too much about what’s gone on. It’s always with some trepidation that I listen to him speak because I thought he was going to stray into some of the internal arguments and –

MR. REEVES: I can if you like.

SEC. SMITH: No, don’t you dare. I’m already in enough trouble as it is. Thank you very much indeed. But, no, Richard worked very closely with us, as Philippa there
will attest, as we formed interesting combinations to get certain stuff through, not always necessarily where you might have anticipated they were.

So obviously, I don’t disagree pretty much with almost anything that Richard said about the nature of what universal credit was. One small practical bit. It’s difficult to describe sometimes, people think – and I get this debate endlessly – what is universal credit? And they will say it’s a kind of IT program to deliver benefits to people. And it’s not. And it’d be kind of useful to give you an example of what really happens.

Right now, for examples, when someone falls unemployed in the U.K., they go and sign on for unemployment benefit. And then there is a conditionality alongside that, as they have to do certain things and we stress the need to search for work, be ready for work, and everything else. And all of that is there, otherwise you get some of your benefit removed or all of it removed in the sense of your personal allowance.

What is universal credit? If you get a job right now, you sign off. Now, it could be a 15-hour job, but you have to sign off the benefit. We have an employment office called the Job Centers. You have a similar thing here. The difference is everybody has to go through ours. In your case, only those who want to go through it really go through it. You don’t always get the hardest to help. So everybody has to go because otherwise they can’t claim their benefits. They have to be at the Job Centers.

Right now, they get a 15-hour job and they sign off. And they go on to tax credits, a little bit like the Earned Income Tax Credit, while they’re in working hours, they get some support. The problem is it’s a complicated system. They really don’t understand how it works. The thing projects what their income will be over the coming 12 months and if it varies, which it always does over that period, then they end up with a bill at the end of it to pay back money which they were overpaid. And of course, being the group they are, they don’t have that money because they money you get is the money you spend. You don’t put anything in particular aside because you can’t. The money levels are not that great.

So we have a lot of distressed people at the end of that period who don’t know what to do because they’ve got this demand for money and it’s going to be clawed back and had they known about it earlier, had it varied earlier, then they would have been fine. So two things that are really important because of cultural shifts. The first is you don’t sign off. You stay on the same benefit. So in work, you’re exactly the same.

The second thing is because you don’t sign off, you stay with the advisor. Now, the advisor is there when you run into a problem. You got back into the thing and say, hey, I don’t understand what’s happening here, and they will help you. And the most important bit is because you don’t sign off, it means, for example, if you’ve been out of work for a while and you’ve got out of the work habit, what actually happens is the advisor can say to you, look, over there is a job for the next three weeks doing 12 hours, OK? I know we’re looking for a job doing something else because you’ve got qualifications, but you, you know, you’ve gone out of the work a little bit. I’ll tell you
what we do. Go over and take that job. You still come back. You don’t have to sign off. Come and see me Tuesday. You do the job Monday, Wednesday, and Friday. You can see me on Tuesday and Thursday. We’re work on getting you right, sorting out what you do, anything else. Go and do that job. Get you back in the idea of doing the work. The job may develop, it may not, but nonetheless they get into that habit of work. They don’t have to sign off. They come back and they stay with the human interface that tells them how they can do the next bit to maximize.

And then, we’ve introduced a thing called in-work conditionality. And now, on universal credit, if you work, I don’t know, 16 hours and after a while, the advisor sits down, cools you and he says, OK, you’ve been doing 16 hours work a week. That’s great. But I think you can do more than that, so here’s what we’re going to do: We’re going to get you up to 28-29 hours, steady hours a week. So we’ll look to help you either get more hours on that job or we’ll get you another job together. And if you don’t do that, then I take your benefit away from you. But if you do, you’ll earn more and you get better off. So we help you get to that point.

So that human interaction actually is the really important bit about this. By keeping that human interface, you actually improve their understanding, at the same time their motivation. So just an explanation, universal credit is more than just a set of systems. It’s suddenly embracing the idea that two humans working together achieve a damn sight more than one person alone with no understanding.

And the second bit about it, which is – by the way, I think it’s a very conservative concept, OK, the idea that you do things in teams. You know, we’re not isolated individuals. We believe in family. We believe in communities. So why don’t we believe in that process in the welfare side?

The other side of it he made, which was I think on the conditionality side, the only point I’d make is to a degree I agree that America’s slightly different, and it is, but I would also make this comment that if you think about what I’ve just said about universal credit, in Earned Income Tax Credits, everyone’s alone out there to figure out what they’re doing. And there’s no lock between conditionality and help. So my point is if there’s a lesson, I would argue, you learn, it’s that conditionality isn’t just about punishment. It’s also about assistance. And the two work very well together when they work like that with that human interface, and it’s worth looking at that. And of course, I’d loved to have done this when we had tons of money, but we didn’t, frankly, and every day is a fight, but I’m not going to say who with.

Anyway, moving on to LaDonna, I think you mentioned a few things, which I was quite interested in, and I just want to pick up very quickly on two. You talked about some programs that work and some programs that don’t work. And I agree with you – you have to measure this about what you really want to achieve, not just a single narrow figure, but how’s that changed likelihoods. And then you talked about some programs looking at the larger concept of what change is. And actually, we do a program in the U.K. we started called the Troubled Families program. Now, this actually was interesting.
We all came together and you said, how do you pay for this? And here’s a fascinating point. If you look at your classic worst family in the U.S.A., you know, out of work, workless for a while, maybe two generations or more, nonetheless dysfunctional, maybe some abuse taking place, kids don’t attend school, nobody in their immediate community works, probably doing a bit of cash-in-hand and some criminality on the verges, maybe even some deeper criminality.

So you’ve got what I would call a troubled family. They cost the state a staggering sum of money. Think of the interventions. If we just go a little circle around that family, you know, where is the area where you spend the most in your health care in America? I’ll tell you exactly. I can take you there. It’s in the areas of highest unemployment. That’s where your health charges are probably greatest, apart from very old people, it’s there, in the working age population it’s the unemployment. Why? Because they suffer more from ill health than people who are active at work. Think about the levels of depression and anxiety and the terrible nature of what happens to you when you’re out of work without any hope. There, you’re in – you know, go to GP surgeons, as we call them inside the U.K., in these areas and they’re stuffed full of people with nothing to do, who are sick, who are upset, and who have nowhere to go. The GPs become a kind of a social worker in a sense, as much as they are a person who treats disease because that’s where they go. They’re the modern day priest in a sense.

So the Troubled Families program looks to this. So first of all, you’ve got health care problems. The second thing you’ve got is criminality. So where do you spend most on your policing and your courts and your justice system? Bingo, you’re right in exactly the same area. It’s where you have most of your issues with costs. And after all, sending somebody to prison costs a hell of a lot more than it does to send them to Harvard Law School, I gather, or into a business college to do it. I don’t say whether or not the outcomes are the same, but the truth is – (laughter) – that the reality is that you spend more to deal with short-term failure.

And the third area that I would look at is failure in education. The family that fails in education is the next generation’s failure. And so the point I make is Troubled Families then says, let’s hub up around them and instead of each group doing an intervention, saying we dealt with that narrow issue, let’s bring them all together and say every time you talk to that family, everybody is in the room, OK? You’re the education guy. You need to hold that family and everybody else is in the room when you do it. Nobody talks separately to this family. The health advisors, you know, the job centers staff. And then, you put outcomes on those. And now what we say is we tell the counsels, we’ll give you a bit of money, but the rest of the money you actually earn. That is to say, we need a set of outcomes from you for this changed family.

So we have an employment outcome. We have an attendance of school outcome. We have a health measurement outcome. That now we say you achieve all of those and then we give you a payment by results payment. We are turning families around in the U.K.. They’ve cost us a lot of money, are beginning to change. That program is about the answer to your question.
And the second point I’d make is poverty measures. Now, we’ve had a real struggle with this and Richard will know about this. I made a speech a while back to the London School of Economics saying I thought the poverty measures that we use at the moment, based on relative earnings, are just hopeless because all they tell you is where you are at that moment relative to somebody else. And the problem is that doesn’t tell you very much because I then shift a load of money into you from the state on a kind of tax credit process and all I do is rotate you around the line of the pound. So I called it a pound pool. So what happens is on a pound below the line, I give you two pounds if you’re a pound above the line. And then somebody above earns more, the line moves and you’re back poor again.

Are you poor? There are families who are above the line who are poor. Why? Because they’re drug addicts and they don’t spend any of their money that we give them on anything wholesome for their kids. Their fridges are empty. The kids have to get themselves to school. Not because they don’t love their kids, it’s they’re incapable of working a day out. So they’re on heroin or whatever. All their money goes on spending and on the drugs. The children live in poverty. But according to the state, they’re above the line, so they must be a success. We tick that box because we intervened with that family that was great.

The point is we have to measure trajectory. That’s what we have to measure. So the way I’ve debated it and we’re still consulting on this is that we need to start looking at – income is a tripwire, but you need to ask other questions. For example, what’s the trajectory of that family? There’re some families that maybe they get divorced. They’ve had a terrible problem and they crash below the line. But this is a person who has a degree, who has been in work before, but hasn’t been in work for a while. But somehow, you know with a bit of help, not a lot, that trajectory will be that way, up above the line. And you don’t need to worry too much about them. You treat them differently.

What about the family, whose historic position is below the line, who has no qualification, who generationally has failed to stay permanently in work? You know the future for that child in there is exactly the same as the parents. They’re the family you need to target your help on and it isn’t just money. It’s turning them around in every aspect that I talked about. It’s about their education. It’s about their family links. It’s about the stability of their family. It’s maybe about their drug or alcohol problems.

So now what you do is hub up around that family and move their trajectory line upwards through interventions now and in future stuff. So measuring poverty is really, really important in this debate and we haven’t quite finished it in the U.K., but we’re nearly there.

And just steering to Michael’s point about – your last point. Yeah, you – you talked about some little things, about how you change stuff. And I just want to make one point. I did one very little thing which had a very big effect when I walked to the door. I said we should think of people who fall out of work as we understand it. We talk about
them wrongly. We talk about them as being unemployed, in other words, they’d be on the system. And I said, why don’t we stop talking about them as unemployed and start speaking about them as employed? You’re all employed. You’re employed now, just by a different employer. The employer is the government, OK? So now, what we want you to think of is you have just a different job.

So now, I make them sign what is really a contract called the Claimant Commitment. When you fall unemployed, this goes down in front of you, a single sheet of paper. And on it, it basically says, this is what essentially we can do for you. This is what we want from you. You’ve got to get a résumé all sorted. Let’s do that immediately. The whole series of things we’re going to do immediately and start you looking for jobs, et cetera, all your qualifications.

On the other side, it says, if you don’t do this stuff, this is what’s going to happen. You know, under universal credit, first offense, three months loss of benefits, second offense, six months, third offense, three years. There are variables inside there, but in essence that’s the core of it.

And then, they literally take out their pen and they sign. At the moment of signing, it’s just staggering, a sheet a paper and a signature is staggeringly important. We have had some of the biggest changes take place just on arrival in the job center. The first time they tested this, I think – top of my head, I have to confirm this – around about 30 percent in some of those – (inaudible) – walked out the door. They knew what that signature meant. This is a contract we’re signing here and everybody knows what happens.

So just a little thing suddenly shifted the attitude. And also, now the advisor picks up the piece of paper when they come in front of them and now when they said, they said look, one second, you signed this here. Can you read this please? This says I was going to be available for work every day. You weren’t here on Tuesday. Where were you? Not around. Good, because I tell you what’s happening. Your benefit’s going. Next time you come in here, you do what your contract says, OK? Bingo. It’s changed everything in their relationship with the advisor. So a little thing like that, a little nudge and you’d be astonished at the direction.

And the last comment I make is you said that – and I think you quoted this business about my business is in the gutter. That’s right, from Shaftesbury. I just remember what Oscar Wilde said. He said, we’re all in the gutter, but some of us are looking at the stars. (Laughter.)

MR. DOAR: So Secretary of State, I am an implementer. I am a former practitioner of social services programs and you’ve taken an idea and you’ve now been implementing it. And the concern, if you were looking at the United States and you were saying to yourself, based on your experience in the implementation of a combining of various sources of support into one, and then implementing it through a technology system and other aspects of it, what one piece of advice would you give to the United
States if they were – if we were considering a similar kind of combining of programs? And is the scale of the United States too large to be done at really the federal level?

SEC. SMITH: Well, interestingly, the universal credit system will lend itself eventually for complete localization. This is ironic. I mean, it’s very central at the moment when we get it rolled out. But in future, of course, it is – it’ll lend itself to sort of city-based localization because the variables in it will exist. So you can very rapidly turn this into a very much more local process.

Two things I would simply say is that one is to understand something about unemployment, which is quite interesting, is that most people who fall unemployed get themselves back into work. They don’t need a lot of assistance. They do it themselves. I mean, everybody I’ve ever known – and you know, I’ve been made redundant before I came into politics and I’ve made people redundant and I understand how hard that is, and I just know that you get up in the morning and you do everything you can to find that job. I mean, it hurts being unemployed if you’ve been employed most of your life. It has a real psychological effect on you. You feel embarrassed. You don’t see anybody for a while. You don’t want to tell them you’re unemployed because you think that they’ll thing there must be something wrong with you. We forget all those issues are massive motivators. But if they don’t deal with it soon, then they become demotivators.

So the key bit is that everybody who falls unemployed from having had a job is doing their level best to get back into work. So you need to separate out those who are on that journey already from those who, frankly, are not on that journey. And all your effort needs to be really focused on those who are not. There’s a tendency to be kind of – just look at the whole world of unemployed as the same. They are not. They’re all very, very different.

Then I’d point the point about scaling. Understand – and we’re just beginning to do this now, but you need to start segmenting out there. You need to start talking about groups that are more likely to be able to get into work and groups that have difficulty. Now, you want to be focusing on those who have stubborn difficulties, my point about trajectory. That’s where government help and assistance is needed. And then there’s the balance between, you know, stick and carrot with groups of people like that. You have to have ways of saying we need to improve the quality of their life to get them there. So if they’re drug addicts, you know, or if they massive debt problems – the thing about universal credit, we discover now who has big debt problems. You have a debt problem, it’s all very well for me to beat the hell out of you to get you into work. And I may get you into work, but sure as hell you will be out of work again in no time at all.

If you cannot manage your budgets, you are not going to stay in work. I don’t care how brilliant the individual is that’s getting you to work, you are out of work as soon as the first paycheck arrives because you cannot cope if you are debt ridden. So we’ve got to do something. You’ve got to now say you have to do something about that debt. You have to try and get them stable on the way they manage their money. And we’re looking
at whole new banking products, you know, the Jam Jar type accounts available if you’re on universal credit or vulnerable.

Second, what you’ve got to do is look at the condition of the individual. If these people are drug addicts, you have got to get them somehow into some form of treatment. And by treatment, I don’t mean sustaining them on methadone. I mean actually rehabilitating them. And let’s be open about that. That is critical. If they have a massive habit, they are not going to stay in work. They’re going to crash out. So look at all of the impediments to stability in work. You do need a certain amount of stability to stay in work. You need to deal with that.

Once you’re dealing with those issues and they are a minority of issues for a minority of people, you radically transform the prospects for them going back into work. And when you do that, that’s when you get to the point about where I said earlier on, which is when I look at social housing right now, what’s intriguing about what we’re doing is it is the houses that never had work that are going back to work in record numbers. And actually, you know, all of those groups, and that’s because we’re looking much more – I put in the Job Centers, you know, they have a flexible fund that exists there that I say you use it for what you need.

If the guy going off to an interview needs a suit, get them the damn suit. If they need a taxi to get them to the job interview, get them the damn taxi. You know, if you know, there’s a problem or an issue that a little bit of money can help, use it because it’s you, you’re dealing with this individual, find out what the single little problem is that stopped them last time from going to work, try and solve it if you can. So we give them a sum of money. We say, you account for it, but you account for it, but you account on the basis that I made that decision. And that really helps.

MR. DOAR: So do we have any comments from the panel before we open up for questions on anything they referred or a follow up?

MR. STRAIN: I have one little –

MR. DOAR: Yes.

MR. STRAIN: I prefer Shaftesbury to Oscar Wilde.

SEC. SMITH: Yeah, I know. (Laughter.)

MR. DOAR: OK, so we have a question right here? Wait for the microphone.

Q: Several months ago, and because I sleep very little, I noticed that your department put out an announcement a forthcoming fatherhood education program, at least I think it was your department.

SEC. SMITH: It’s a mix between departments – (inaudible).
Q: So I’m wondering what the status of that is. I’m also curious, where does the issue of family formation and stability of relationships fit in your overall poverty reduction strategy?

SEC. SMITH: It’s an integral part of it. There’re a number of things we’re doing. The first thing is that obviously stable families are more likely to be in a position to get to work. We know that. I – one of the points I make is I don’t really think – first of all, I don’t subdivide in my mind now single parents and couples because the system now says households, and there’s a reason for that. It’s because if you focus too much on the position of the individual, what you end up doing is micromanaging, if you’re not careful, their lives. You have to have an expectation. My expectation is most people out there do what is best for them and their families if they’re given a balance of circumstances.

So to put right the things that give them imbalanced choice and they will mostly make the right choice. So what we have in the present system or the system I inherited was the thing that actually Frank first wrote about called the couple penalty. It basically said, look, if you are in the benefit zone and dependent on benefits, then the truth is the benefits system in the U.K. grew to – because people looked specifically at micromanaging problems in different groups, basically what happened is it said, you’re better off in that system not to have the second person, the second adult present officially in your house.

So the couple penalty said, you’re better off being a lone parent, as you’d call them in the States, than – in the U.K. rather – than you would having the man available. So what happened is progressively for groups like that the money shift is important. I’m getting this argument. I’m very keen on – sometimes we – (inaudible) – but I was very keen on saying at all levels, you want to try and change that. So you want to get rid of that couple penalty. At the heart of that, the edge of that lies marriage. But you know, I want people to live together and to marry, rather than not if it’s anything for the stability of that family and the outcomes change, et cetera.

But my point is this, so the way I want to do it is I want more of a level playing field, not to turn around and lecture one group about what they should do, because there’s nothing better than a politician lecturing somebody else about almost anything. Because, you know, we’re just hypocrites at the end of the day because that’s what they think. What they want to know is, however, what? They react to circumstances.

And I had this row with some colleagues that said – you know, when I did the Marriage Tax Allowance and the Couple Penalty we talked about it, they said, but I wouldn’t get married. I wouldn’t stay together for a few pounds. And I said, yeah, that’s because you earn what you earn and where are you and you don’t think about this stuff because you don’t think twice about going out and buying a meal. But if for you, you’re in a community where very pound you know what it is, you will live within that direction for where money goes. So what we’ve been doing is squeezing the Couple Penalty, universal credit will do that hugely, rebalancing that. What we’ve begun to see is more
couples stabilizing and staying together and I believe eventually you’ll see an upturn. We’ve seen divorce levels fall, et cetera. So this is about stability and the general instance with a statement of support in terms of tax and payments for more stable families. So that does have a feature in it.

And these classes you’re talking about, we have a problem, I think you have it here, absent fathers being a big problem in some communities, have been a growing problem. And it’s about getting kids to school, young men to understand what happens with responsibility and young women, too. So there’re lots of programs introduced to try and say to them, look, you know, you can’t just forget what happens as a result of your actions. You’re going to take responsibility for it, so here are some of the things you have to do. And this is part of the process of just saying to them, look, I nudge you and show you. I’m an optimist. I believe human nature is by and large positive when it comes to families, but we just need to stop setting the balance against them making those choices.

Q: I’m sorry. Is the program actually in operation now or is still –

SEC. SMITH: We started it, yeah, but it’s got further to go, so – but it has actually – it’s part of a process of saying at every level, it’s not just that alone. It’s all the business about getting with the couple penalty, too.

MR. DOAR: I’m going to go way in the back.

Q: I have a question about what I think is a gap in some of Richard’s comments, which is this matter between inputs and outputs, which is management. And it seems to me the sort of fundamental aspect and an interesting feature of what the Secretary has accomplished over the past five years is engagement in management. What have you learned in that process of making the connection between inputs and output work better?

SEC. SMITH: Yeah, there’s internal change and external. Today, I’ve mostly spent with the external, but there has been massive internal change. One is that it’s getting the civil service to kind of understand. If you’re going to do to a payment by results model, that means you’re going to be using more private providers than just civil service. So we do that. The work program is all about that. One of the faults I found in that process was that there was an instinctive sense that if you pass something out to private sector and there’s a profit motivated, the private sector automatically does their best to achieve the profit.

Strangely, that’s not the case. I have come across really badly run companies in my time in the private sector who wouldn’t know what a profit was and wouldn’t motivated by it until the company closed down. And there’s a lot of them out there, strangely. And so assuming that is where the fault lies, you have to manage every contract was the first thing that we talked about just yesterday, getting civil service to understand you have to set contract management in a way that a company would manage subcontractors, because you need to apply that now in the civil service.
So we’ve changed on these programs to have for the first time contract managers responsible for managing – once a program’s rolled out, you manage the outcomes from that program and you hustle the providers if they don’t meet their day-to-day, week-to-week obligations, even to the extent of driving management to be fired. If they are not performing, you do it early. And by doing that, in the last couple of years, we’ve actually seen whole programs turn around now and begin to operate because that really gritty section is important.

The other part of it is that there’s a lot of change now in the way that I think civil service operates. When we were rolling out the Universal Credit program, we talked about this, there was an element really where, you know, you roll a program out and the whole idea was you rolled it to a certain point and press a button and everything just fires off or not, as the case may be. We realized earlier on that that would not have been the case for universal credit. When I brought in an outside team to look it, that process wasn’t working. There was very poor communication between elements of the team. You know, the civil service ethos was, for example, that somebody passed a bit of work on to you and if it wasn’t right, you spend a lot of time putting that work right before doing your job. And I was very keen to say, no, stop, stop, stop. What you’ve got to understand is everybody has to recognize you have a responsibility for the bit that they’re doing. If they haven’t done it, then the group that follows them has to say to them, I’m sorry, I’m not prepared to accept that work. And that wasn’t the ethos in civil services case. We’re all in this together. We want to work together, et cetera.

My view was, no, private sector right now or quality circles, you don’t accept that work. So you have to reject it and you have to say, I critique this work and I’m not prepared to continue until you put your job right because you’re ruining my job. That’s a much more aggressive process, very alien to the nature of hard works, but actually, since we’ve put that in, that has transformed, again, the roll out of certain of these key programs. Being honest is the key bit.

Otherwise, not thinking, I have a problem and therefore I don’t tell anybody about this problem because I can solve this. And then you borrow a bit deeper and you try solving it. It doesn’t work and it doesn’t work and not it gets bigger and everyone’s delayed. And suddenly, you’ve got a crisis on your hands. And this doesn’t end up on the politician’s desk until the crisis. And the point is I always argue, get it there early. You have a problem, I’m really interested in the problem. I’m not interested in the success. The success sells itself. I want to deal with the problems. So be honest about the problem, tell me early, let’s see what we’ve got to do to fix it. If you’re going to make a delay or a change, let’s do that.

So in other words, all along, be completely flexible, then stick to artificial timetables. One lesson I’ve learned, politicians and artificial timetables, we kill ourselves over them. And the civil service tried to work to them and the answer is we both go down. So no artificial timetables. The program is as good as the time it takes to do it. Do it properly and get it right.
MR. DOAR: Richard, do you have a comment?

MR. REEVES: I had a brief point. I think the promise of a real focus on evidence and on results is to some extent to get the government out of some of the complexities of management. In a sense, we can be a little bit more agnostic about means if we’re clear and evangelical about the ends. We can actually say, look, that’s the outcomes that we want. That’s the result we want. And then, over time, you can start to become a little bit more relaxed about how it’s achieved because very often that will be done in an innovative way you can’t possibly predict now.

I’ll also just echo what the Secretary said about the relative poverty measure in the U.K. You have to be very careful what you choose as your outcome measure and you have to spend a lot of time thinking very hard about what it is that you are going to try and achieve. So relative poverty measure in the U.K. actually was very useful way for labor to track its success in reducing measured income inequality. Relative – if you use poverty line, a percentage of median income, what you’re really doing is measuring income inequality, not poverty in any reason or sense. And you know it wasn’t the best measure when it turned out that the two most spectacularly successful years for reducing poverty on measure were ’08-’09 and ’09-’10. You can reduce poverty in that – if it’s a measure of – if it’s a relative measure of median income through the simple expedient of a massive recession that causes median income to drop, which is what happened in those years. Just an – and it’s a cross-party consensus now to rethink what we’re often – you know, one of the things is the work on social justice. Another is the work on social mobility.

So spending a lot of time being clear what the end results is incredibly important because those will last for a very, very long time.

MR. DOAR: Last question, right there, in front. Wait for the microphone.

Q: Can you hear me?

MR. DOAR: Yes.

Q: I think that one very large problem here in the United States that may not be the case, and you can inform me on that, in the U.K., is the same group – a huge group of the poorest Americans are incarcerated here. And they are overwhelmingly the absent fathers of the children living in the most dire poverty. And now, because of the work I’ve done for so long, what I see is generational. I see the sons of the men that I served 20 years ago come to us. Also, I believe that – and I could be wrong – that in America, less people get married than in the U.K. So we have a combined problem of a mass incarceration of minority men, who are, as a result, absent fathers, and now a generational impact of that where the expectation of their sons is that they will in fact go to prison, and one out of three do.
So my question is, number one, are those big issues in the U.K.? And obviously, you have incredible wisdom, and I salute you on what you’ve been able to accomplish. How would you deal with this massive incarceration of men who go, don’t support their families, and have an incredibly high recidivism rate to prison?

SEC. SMITH: OK, thank you for the wisdom point. I’m not sure I would necessarily share that, but certainly my kids don’t. On the point about prison, you are right about – actually, the U.K. faces a similar problem to the U.S.A. It may not be on the same scale, but we have tended to incarcerate a higher proportion than others, so – I mean, I remember, when Tony Blair came to power and the prison population was 63,000 or something at that particular time. And he said that was outrageous. And when he left government, it was 83,000 or something. So – I mean, successive governments – this is not to tackle Tony Blair. This is just an excessive observation. Everybody keeps saying somehow they’ll find a solution to that, but when they leave, they tend to have more than otherwise.

The only point I’ll make about this is it depends which way you look at this. Are the men in prison causing the problem of fatherlessness or is fatherlessness causing the problem of the men in prison, if you follow what I’m saying. And I think there’s an element of the absence of commitment to a structured life, a structured life that leaves a number of men open to the invitation to – and the way in which they then fall through their own links into crime on the margins that maybe those who are committed to structure don’t. I’m not saying this is an absolute. I’m just saying there’s some potential in that.

But the point I would make to you is the biggest issue we’ve got is once you capture somebody and they’re in prison, you have to stop them going into prison the second time. The key to all of this is the rehabilitation on the first time in, normally, for quite a minor affair for the most part. Very seldom is the first offense a major affair. So you need to get recidivism down on the first events. And that means massive focus on rehabilitation, which includes lots of very difficult things for politicians to stomach.

For example, I have a big debate about this in the U.K., to what degree should employers really have the right to know constantly if someone has got a criminal record. Because one of the biggest problems is, first of all, people don’t employ anybody that has. They made one mistake. They’ve been in prison and now – if they’re unemployable, they’re going to head back to crime. Because if they’re not employed, if you don’t get them a job quickly and get them a house and all the rest of it, they’re going to head for crime. You’ve got to try and stabilize their general life. So we’ve had a debate about that and we tried to distance the availability of information in that regard.

The second part is, when they come out of prison, you have to deal with all of their problems immediately. When I first came in, I discovered that the prison service released people always on a Friday afternoon and didn’t take anybody in until Monday. The reason for that was they needed to have time, they said, to clean up cells and do the other bits and pieces, which, you know, I’m sure are very important. The real point was,
as they left prison, often with cash in hand, the first person they met late in their afternoon was the drug dealer, who was waiting on the side by the prison. The first thing they did was make a purchase of more drugs, OK? The last thing they could do was to find any housing because all the agencies had shut for Friday, because, you know, we shut early, don’t we, on a Friday, because it’s the weekend.

So they were released into a void for three days. So the first thing I did was I argued with our law. We wanted to put the job center staff into the prisons before release. So now, we start working with them before they get released. We start talking to them. We also now want to get to the housing setup, sorting everything else, so that as they’re released, they’re released into a stable environment, number one, vitally important. If they’re not in a stable environment, they’re going to go back to prison. So rehabilitation, including all of those bits, working on them in prison, but more importantly working with them out, getting them skills.

Do you know one of the biggest reasons why people are in prison? They can’t read or write. Men do not go into job centers, and it’s mostly men, let’s face it, they’re in prison. Men do not go into job centers to face possibly a woman who asks them to read the document and sign it when they can’t read it. And they’re not going to tell this woman, I can’t read or write. They look very small, these great big guys. They’re not going to do it. So they stay clear of job centers. And they are on the fringes from day one. You can’t read or write, you haven’t a hope in hell of doing anything in life of any meaningful degree. So the best thing you can do in prison is to teach somebody to read and write. That is a beginning of the rest of their life.

The other thing is drugs and alcohol, rehabilitation part of that process is critical. And finally, I’d simply say also, in our country the care system has been terrible for putting people into prison. About 30 percent of all people in prison came out of our care system – kids taken off parents, put into state’s care, about 30 percent. Only about 1 percent, less than 1 percent, half of percent of all kids in the U.K. have ever gone into care, but it makes out 30 percent of the prison population. So dealing with a better care system that is outcome based, that actually deals with stability, that doesn’t dump the kids at 16 or 18 on the streets, that actually does what most families do, care about their kids way into their 20s, this is really important for us. And sorting all that out is part of reducing the prison population. It’s not rocket science, but it is essentially vital.

MR. DOAR: So with that, I hope we can thank the Secretary of State for Work and Pensions, Iain Duncan Smith for a great event. Thank you very much. (Applause.)

(END)