Executive Summary - Investing in relationships

"Its relationships stupid" was the alternative title for this report. It conveys the core message – relationships matter. Why? Because relationships are the most significant influence on well-being and life satisfaction. This report considers how to invest financially to create, support and sustain good stable relationships. Our thesis is that to increase well-being, policy must strengthen and support relationships, which requires amongst other things, financial investment.

Well-being relies on stable and close relationships and includes physical health, income and wealth, meaningful work and leisure, and good mental health. Despite a thriving economy the UK was placed last out of 21 OECD countries with regard to children's well-being. This is a stark reminder that money does not automatically lead to well-being. Central government cannot legislate well-being into existence. So how can a credible policy agenda be created?

It requires ***intentionality*** –the recognition that people want more than money alone. The intention of policy should be the promotion of well-being. It follows therefore, that relationships are significant – we depend on others for our well-being, and others depend on us. Our previous report, *Thriving Lives*, defined well-being beyond individual happiness, acknowledging that we all need to work together if we are all to thrive. Relationships must shape policy goals, rather than suffer unintended consequences.

Secondly, it requires ***integration*** - a relational perspective is not counter to economic growth, but rather integrates economic, social and environmental concerns. The development of mature relationships will have a long-term positive economic impact, as well as reducing pressures on natural resources and public expenditure. There is some ambivalence about relationships due to the responsibility they bring. There are constraints, as well as the positives of support, connectedness and expanded opportunities. But the choice is not between relationships and something else – we cannot live and work outside relationships – but between kinds of relationship. Although all relationships are important, this report focuses primarily on relationships within families and communities, which have the most significant impact on well-being.

Thirdly, credible policy comes through effective ***influence*** – creating the conditions within which relationships, and therefore social growth, can flourish. This report explores how finance, one of the main policy levers, influences the relationships that are crucial for well-being. We use the term finance loosely to consider how resource allocation and flows can be used to strengthen relationships. Relationships cannot, of course, be bought, but finance shapes patterns of interaction in a number of ways:

- It can create incentives (or disincentives)
- It reinforces and communicates social norms
- It can empower the conduct of relationships
- It can buffer relationships from other pressures, or be a source of worry and conflict
- And it can create a reason and purpose for interaction.

It is essential to consider how to turn financial capital, in the form of public expenditure, into social capital – to get the biggest social dividend from every pound that is spent.

Having discussed in broad terms the interaction between finance, relationships and well-being the report turns to application in six policy areas. These areas are not designed to be comprehensive and have been grouped for convenience; in reality there is significant over-lap. The policies are not necessarily new or original, but illustrate how well-being is shaped through a wide range of policy areas. Some show how finance can have a negative impact on well-being; others highlight missed opportunities for promoting well-being.

Motivation

Chapter 2 asks whether the ***tax and benefit system*** can consistently recognise and support relationships. It explores the notion of motivating people to value and pursue those relationships that contribute to personal well-being and other social goods. It considers the impact of financial incentives on people's relationships and how finance reinforces and communicates social norms. The tax and benefit system is inconsistent with regard to relationships, recognising them when it comes to benefits, but ignoring them for tax purposes. It has abandoned any supposed neutrality, and instead prefers double income families to single ones and includes a 'couple penalty'. Instead, the system could and should encourage relationships to achieve better outcomes. Its failure to do so means that relationship breakdown is costing a staggering £37 billion each year. Eradicating the unfairness of the couple penalty is a necessary first move, but bolder steps are required to build a truly pro-family tax system. More generous allowances for couples and parents, joint filing and income splitting would more properly recognise and support relationships.

Opportunity

Chapters 3, 4 and 5 look at measures to ensure that people have the opportunities to build relationships. Shared financial interests and responsibility can incentivise families and communities to take on greater welfare and social care responsibilities. Chapter 3 asks how finance can facilitate ***extended family*** relationships. Whilst family structures are changing, everyone is part of an extended family and the majority of people say families define who they are. Families, in particular family businesses, are major economic units generating turnover in excess of £1 trillion each year. Families are also major welfare units, providing social care and support worth over £50 billion a year. Family Associations – a tax friendly family insurance/ welfare/ savings network, which would provide welfare for group members - could help bond extended families together. Family businesses need more support particularly with intergenerational transfers. There also needs to be significantly more investment in relationship education for couples. The quality of relationships is often low because relational skills, traditionally acquired in families, are no longer transmitted as they used to be.

Chapter 4 explores how finance can promote ***community*** relationships. It is clear that the State cannot and should not do everything, but can create opportunities for the community and voluntary sector in providing welfare functions. More localised decision-making and spending builds social capital and communities. People and communities with good access to a diverse mix of social capital tend to be more 'hired, housed, healthy and happy'. Community bonds offered by Citylife use interest foregone by investors to bridge relational and financial gaps in communities across the UK, by helping people set up businesses and find employment. Local funding of services shortens the link between raising money and spending it, improving accountability and responsibility. Participatory budgeting unites local knowledge with public money and technical ability, whilst local pensions promote ethical investment in sustainable local communities.

Chapter 5 looks at the role of finance in reducing ***housing costs*** and promote living together through ideas such as co-location. By 2020 there will be 67 million people in the UK and average household size is predicted to have dropped to 2.1, meaning a need for 32 million houses – 7 million more than there are currently. This demand means costs will rise over the long term, redistributing wealth from the asset-poor to the asset-rich, and from young to old. In the 70's and 80's it took two earners for a family to attain a middle class lifestyle, whereas today it takes two generations. If families are to provide more welfare, they will need to live close to each other. Bringing back a 'sons and daughters' policy to favour extended families in social housing and offering financial incentives for those in the rest of the sector would encourage co-location. Planning permission for more multi-generational homes would help meet current demand and likely future increases. Finally a reform of council tax based on value, size and occupancy would encourage better use of the current housing stock.

Support

Chapters 6 and 7 look at measures to ensure support for those whose relationships are under pressure, or those with few care relationships. Chapter 6 deals with *credit and debt*, as finance problems threaten economic and social stability. Debt is rampant – average household debt in the UK excluding mortgages is £9,053. This has a massive impact on relationships – 10.7 million people suffer relationship problems because of money worries, which are the top cause of arguments between couples. Eddie George admitted that the Bank of England deliberately stoked the consumer boom that has led to record personal debt, in order to avert recession in 2001-02. We are now faced with the relational consequences. Good quality financial education should be available in schools and the wider community. Free money advice centres and debt counselling centres, funded in large part by the financial services industry are an urgent necessity to prevent further relational breakdown. Simple steps, such as requiring minimum repayment levels on credit cards to at least cover monthly interest payments could help bring about credit card discipline. Debt is a significant source of relationship stress and breakdown for which we all pay in the long-term.

Chapter 7 explores how finance impacts relational support for vulnerable people. ***Care relationships*** give rise to both benefits and stresses for all those involved. There are 3.2 million families in the UK containing a disabled child, a disabled adult or both. There are an estimated 5.7 million carers in the UK, almost half a million are over 65, and almost a million work more than 50 hours a week. Half those with a disabled child felt it caused at least some problems in their relationship with 9% saying it led to parental separation. Half also suffer financial difficulties. Finance can act as a buffer – increasing Disability Living Allowance, Carer's Allowance and pensions would reduce pressure on disabled people and the elderly who are particularly vulnerable, and often face increased costs and limited income sources. Financial flexibility would enable them to decide who to pay for respite care, how their individual budget is spent, or who looks after their children. Giving all pensioners and disabled people free rail and bus travel throughout the UK (as is currently the case in Northern Ireland) would encourage family contact and give many of these people new freedom.

Despite the rise in individualism, every decision we make affects someone else and therefore our relationship with them. Every decision affects our well-being and/or that of someone else. Almost everything we do has a cost, which at least in part can be measured in financial terms, and every time we spend money we enter into a relationship with others. When relationships break down the full costs are incalculable. We have estimated that breakdown costs the taxpayer almost £37 billion each year, but the broader costs to society and the human and emotional costs are not included in this figure. As breakdown continues and the consequences multiply, that figure will only continue to grow. It is clear that in the long-term a society of isolated individuals in neither sustainable nor desirable. Instead we need to *motivate* individuals to make relational decisions that build good relationships. We need to create *opportunities* to strengthen relationships and finally we need to *support* those whose relationships are vulnerable or under pressure. Such investment will lead to a better society, and in the long-term a stronger economy.