

Poor Britain

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Chapter 8: The Collapse of Welfarism

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8

The Collapse of Welfarism

Shifts in policies for the poor

As for Mrs Thatcher talking about the Victorian times, she should have lived in Victorian times and seen how the poor people were all repressed and put down. My father, he was out of work and what he used to do to earn some coppers, he used to get barbed wire, old wire and you know what we lived on - white puddings. When I look back I cannot believe I went through and survived through it all.

[A pensioner born at the turn of the century]

In recent years, it has been increasingly suggested that the postwar welfare consensus has collapsed. This view has been fuelled by the re-election in 1983 of a government openly hostile to welfarism. During the election campaign this is what Mrs Thatcher told a packed meeting of Conservative party activists at Wembley:

We are committed to a civilised society where the poor and the sick, the disabled and the elderly are properly cared for. By the community, by their families, by voluntary organisations.

Mrs Thatcher made no mention of the state. Under the influence of New Right thinking, the leadership of the Conservative party has become increasingly committed to a shift in the emphasis of welfare provision away from the state to the individual. Any significant change in this direction would have dramatic implications for the lives of the poor. So how far is Mrs Thatcher likely to go in dismantling the welfare state and does she have public support?

In Chapter 7, it was argued that the recession and the rising number of families with direct experience of an employment,

of financial hardship and of claiming benefits have had a softening impact on attitudes towards the poor and towards claimants. The next chapter looks at attitudes to the welfare state and in particular at how far this general shift in sympathies translates into support for pro-welfare *policies*. But first we look back, briefly, in this chapter at the postwar history of the welfare state.

The foundation of the welfare state

Although there are various conflicting explanations for the birth and development of the welfare state, there is little doubt that the postwar welfare reforms were introduced at least in part as a response to widespread public support for collective state action to secure a fairer society. Such public concern was born both out of the lingering memories of the gruelling hardship and poverty of the 1930s and of the evils of the means test, and out of the experience of war. This was how a 79-year-old pensioner, born in Sunderland, and unemployed for most of the 1930s, described the means test to us:

Oh that was a dreadful thing. You had people coming to the house. ‘You get rid of that.’ ‘You don’t want that.’ ‘The gramophone - you get rid of that if you want any money’. that was the means test, yes. You mustn’t have no luxuries and if you got any assistance it wasn’t in cash it was in a voucher marked groceries.

And this was how he went on to describe his treatment when unemployed:

In the 1930s, if you were on the dole, you waited, the time you waited six weeks they put you on the gap, and you got no money. So what did you have to do, you had to go to the parish and you know how much they gave me to live on, 10 shillings. Out of that I had to pay three and tuppence rent for me *gas* and me phone out of ten shilling. Well the climax

was one day I was walking down the high street, and I collapsed on the pavement. I had to be picked up and taken home and when I got home the doctor came, 'oh', he says, 'it's malnutrition'. I said, 'in other words I'm starving'. It was true, but did I get any more, no. What do you think they wanted to do with me when I went before the committee. She says to me, 'oh well, what we have decided to do, we're going to put you in an institution'. I said, 'what are you talking about'. She says, 'we'll store your furniture'. I said, 'you'll do nothing of the kind'. I said, 'I'm only a young man and that institution you're speaking of, is for old people'.

In addition, the experience of war helped to erode class barriers. Mass evacuation and the air raids exposed the middle classes to the reality of poverty, inequality and the appalling social conditions that still prevailed (Titmuss, 1950). This gave rise to changing attitudes and values, and helped create a new consensus on the role and responsibility of the state in tackling these problems - and through universal rather than selective provision. As John Saville has written:

On the morrow of the electoral victory of the Labour Party in the summer of 1945, nineteenth-century ideas of individualism were widely regarded as outdated as well as socially immoral. The lessons of the grim years of unemployment and wasted resources between the wars had bitten deeply into the minds and hearts of many of the British people, and the anti-fascist war had further strengthened their radicalism. There was at this time a greater consensus of opinion regarding the allocation of resources in the interests of social justice and equality than at any previous time in the twentieth century, or, for that matter, since. (Saville, 1965, p. 199)

Combined with macro-economic demand management aimed at securing full employment, the postwar welfare reforms

remained the key weapons in successive governments' antipoverty policy. In the thirty years after the war, public spending on social welfare - health, education, the personal social services, housing and social security - rose more quickly than national income and public expenditure as a whole. Welfare spending now accounts for about half of all public spending and about one-fifth of GNP. While much of this increase in social spending has been necessary to meet demographic changes, it has also resulted in improved standards. This pattern of growth was associated with both Conservative and Labour governments, giving rise to the term 'Butskellism' to describe the cross-party consensus that underpinned the steady expansion of the welfare state in these years.

This is not to say that helping the poor has been the sole objective of state spending on social welfare. Government intervention through direct state provision of social services had also been justified by classical economists as securing the efficient functioning of the economy. Marxists, on the other hand, have viewed the development of welfarism more cynically either as a response to the requirements of capitalism, acting as a form of social control ensuring the political and social stability essential to its survival, or as a product of working-class pressure in which 'concessions are wrested from an unwilling state' (Gough, 1979, p. 56).

The impact of the welfare years

Whatever the underlying motives, high spending on social welfare has had important redistributive consequences, which overall have improved the living standards and opportunities of the poorest. The net impact of government activity through taxation and social spending is progressive. Those on the lowest original incomes (that is, before government intervention) gain substantially from the tax-benefit system, while those on the highest original incomes are net losers. Overall, the welfare state has redistributed income from the rich to the poor, through the life cycle and between household

types - from, for example, the childless to single parents and large families.

Until recently, welfare spending has also operated to counteract the impact of wider social and economic factors that have increasingly served to widen the gap between pre-tax and benefit incomes. Since the war, the share of labour market incomes accruing to the least well off has been falling. In 1976, the poorest 40 per cent of households received 10.2 per cent of labour market incomes compared with 15.6 per cent in 1965, a fall of one-third in fifteen years (Royal Commission on the Distribution of Income and Wealth, 1979, p. 75). This was the result of demographic changes, such as the growing number of the elderly, and changes in employment patterns, such as earlier retirement, less part-time working among the elderly and the increased participation of married women in the labour market. However, these trends towards greater inequality were largely offset by the impact of the welfare state. More and more became dependent on welfare benefits, especially retirement pensions. As a result, the comparative post-tax and benefit incomes of the poor remained more or less constant throughout the 1950s and 1960s (Fiegehen *et al.*, 1977, pp. 19-31). Since 1979, however, cuts in benefit levels and other social policies have weakened the countervailing power of welfarism.

This is not to say that the welfare state is not without major flaws in tackling poverty and reducing inequalities. Relative poverty has not only not fallen since the war, it has started to rise in recent years. In turn, fundamental structural inequalities have remained largely immune to the persistent growth in social spending. The welfare state has offset but not dismantled these basic inequalities.

In part, this reflects the limited objectives underlying the original reforms. The new social security system, for example, was in essence a system of social insurance designed to provide a minimum income in times of special need, such as unemployment, old age and sickness. Its central aim was not a major reduction of income inequalities through redistribution between classes but a redistribution over the life cycle and between work and unemployment, old age and illness. The

limited redistributive objective was reinforced by the finance being based on a largely regressive system of national insurance contributions. Although the system has developed in various ways through the introduction of some earnings-related benefits and contributions, non-contributory benefits and means-tested benefits, and an increasing share of the cost being met by taxation, its vertical redistributive impact has remained limited.

Other reforms, especially the setting up of the National Health Service, the introduction of a universal education system and the public housing investment programmes, had more fundamentally egalitarian aims - to ensure that a child's future was no longer determined by where they were born and brought up. It was hoped that such reforms would provide improved access for the poor to decent services and break the link between poverty and ill-health, poor educational achievement and bad housing. However, policies of providing services at free or subsidised prices, paid for by general taxation, have had only limited success in achieving equal access to these services. The link has been weakened but not broken, inequalities have persisted.

Indeed, some elements of welfare spending are not progressive at all. Social security, which accounts for about half of all social welfare spending, is by far the most progressive. Among services in kind, the personal social services benefit the poor to a greater extent than the better-off, while the redistributive impact of spending on health, education and housing is more complex: some elements of these are pro-poor - such as housing benefit; some are broadly neutral - such as nursery and primary education; and others are pro-rich - such as health spending, higher education and general housing subsidies (Le Grand, 1982).

In part, this is to do with the nature of the spending itself. In housing, for example, the replacement of owner-occupier tax concessions with a system of income-related housing subsidies would lead to greater equality. The main explanation, however, lies in the failure to 'counteract the influence of the more fundamental social and economic inequalities that pervade

British society' (Le Grand, 1982, p. 139). Especially important is the failure to make significant reductions in the inequality of money incomes. For those services that are not free, such as housing and higher education, the better-off tend to buy more and so end up receiving more in subsidy. The costs involved in the take-up of services that are free can also bear more heavily on those with lower incomes. The welfare state has, therefore, had only a limited impact on reducing the unequal structure of British society.

As the Oxford Mobility Studies have shown, the poor's chances of improving their relative position compared with those who start at the top are no better now than they were in 1946.

Since the war, Britain has become a rather richer country. But even though that is true, those who are born at the bottom end, those who are poor, are the ones who are most likely to stay at the bottom end and the chances of staying at the bottom end are no different now compared with those who start at the top end, than they were at the end of the second war. (Professor Halsey in the *Breadline Britain* series, 1983)

The inherent limitations of the welfare state in helping the poor have often been used by writers on the New Right to reinforce their call for the dismantling of key chunks of the welfare state. However, the limited achievements of welfarism are a reason for reforming not dismantling it. There are several ways in which state welfare programmes could in principle be made more progressive. First, the taxation system, which at present is broadly neutral (at least across the top 70 per cent of the income distribution), could be restructured in a more progressive way. Second, the nature of spending could be modified so that it is more biased in favour of the poor. Housing subsidies - especially tax concessions to owner-occupiers, for example - could be redirected so that they are of greater benefit to those on lower incomes. National Health Service resources could be redistributed from richer to poorer

areas. Third, income redistribution towards the poor would itself lead to greater equality in the use of certain key public services, such as health care and higher education. The poor are much less likely to make use of the health service, for example, because they have fewer cars and telephones, while manual workers often lose money if they take time off work to see the doctor (Le Grand, 1983).

The growing crisis for welfare spending

Not only has the growth of welfare spending failed to make significant inroads into structural inequalities, the broad consensus that characterised the early days of the welfare state was to prove very fragile and short-lived. As early as 1953, Beveridge was to write: 'the picture of yesterday's hopeful collaboration in curing the evils of want and disease, ignorance and squalor . . . looks like a dream today' (Beveridge, 1953, pp. 360-1). According to another author,

The story of poverty, inequality and the Welfare State in post-war Britain is one of a retreat from consensus on social justice and equality ... The period 1950-80 saw a hardening of attitudes towards the poor, less concern for the pursuit of social justice and equality. (MacGregor, 1981, pp. 23-4)

This 'retreat', if retreat it was, was not confined to the public. Throughout the 1950s there were strong voices of dissent from anti-collectivist economists such as Hayek and Friedman and from some Conservative politicians who were opposed to both the mixed economy and state welfare. They favoured the replacement of universal with selective provision for the poor and disadvantaged, a shift away from collectivism towards individualism and greater choice through the encouragement of private provision in health care, education and pensions. Such views, however, were out of tune with the prevailing political orthodoxy, and were insufficiently influential at the time to have much impact.

The precise impact on the poor of a partial or total withdrawal of the state from welfare provision is difficult to evaluate. It would depend especially on what form such withdrawal took and how far it was taken. In general, policies involving one or a combination of reducing levels of benefit, concentrating benefits only on those below a certain income level, and privatising certain services would, depending on the effect of alternative insurance-based services on access to such services for the poor, widen inequalities both of income and of access to services. Concentrating cash assistance on the poor alone would also exacerbate the poverty trap. As seen in Chapter 1, the very limited changes of recent years have reduced the incomes of the poorest, made them more dependent on supplementary benefit, with its built-in 100 per cent marginal tax rate, and contributed to widening inequalities, albeit on a modest scale.

Advocates of such a return to selective income provision for the poor and the abandonment of universal public provision of social services have, of course, argued that the poor - even if they suffered in the short term - would benefit in the long run since the present system discourages incentives and acts as a drag on economic growth. There is no doubt that some trade-off exists between economic growth and greater equality. There must be some level of taxation and public spending that will erode incentives. There is little firm empirical evidence, however, about the level at which this would begin to bite. It is most unlikely that present levels of taxation and public spending, which are lower as a proportion of GNP than in most European countries, impose major constraints on enterprise. Nevertheless, to the extent that such a conflict exists, it is then a political choice whether lower incomes all round is a price worth paying for a more equal society.

Moreover, while anti-collectivist views gained little ground during the two decades after the war, by the mid-1970s they were being more widely voiced and were being taken much more seriously. The favourable climate that had given birth to and sustained the development of the postwar welfare state had begun to grow colder. The immediate source of this new crisis

for welfare was the onset of the deepest world slump since the war. The end of economic growth and full employment and the birth of stagflation in the early 1970s created new problems of financing the cost of welfare spending, with the recession and low or zero growth leading simultaneously to rising demands and falling revenue. These problems were further fuelled by growing concern about high rates of taxation, on the one hand, and the effectiveness of welfare policies, on the other. In addition, it was being argued in some quarters that excessive state spending on the social services lay at the root of Britain's poor economic performance (Bacon and Eltis, 1976).

After some expansion in Labour's first year in office, cuts in spending were initiated in 1975/6 and then reinforced under pressure from the International Monetary Fund. This helped authenticate these wider views, and created the circumstances for a revival of market liberalism from the mid-1970s. The debates of the 1950s on universalism versus selectivity, and on individualism versus collectivity, re-emerged, and were replayed in a much more sympathetic climate, leading finally to the election victory of Mrs Thatcher in 1979 on a platform committed to 'rolling back the frontiers of the state'. In the words of the 1979 Conservative party election manifesto, 'The balance of our society has been increasingly tilted in favour of the State. ... This election may be the last chance to reverse that process. ... After three decades of steady expansion, the future of the welfare state now looks increasingly insecure. As one author has put it: 'The legitimacy of the welfare state is in serious doubt' (Mishra, 1984, p. xiv).

Welfare under Thatcherism

During Mrs Thatcher's first term in office, the new Conservatism took only limited steps to reduce state involvement in welfare provision. Only in housing did the government make any real strides in attempting to substitute private for public welfare. Here, measures to promote the private market at the expense of state provision included generous discounts to

encourage council tenants to buy their homes, the promotion of low-cost home ownership schemes, sharp increases in rents, large cuts in public housing investment and the encouragement of private landlordism. Among other services, tax incentives for occupational health insurance were restored, some local authorities began to privatise some of their services, assisted places schemes were introduced as a further subsidy to independent schools, and responsibility for the first few weeks of sick pay was transferred from national insurance to the employee. With the exception of housing, these changes hardly add up to the kind of radical transformation of welfare provision that many key government figures probably favour.

Partly because of the government's cautious approach in these areas, the level of public spending and taxation, far from falling as the government hoped, rose after May 1979. Real public spending rose by 3 per cent from 1978/9 to 1984 /5, and from 40.5 per cent of GDP to an expected 42 per cent. Social spending rose over the same period at a faster rate of some 7.3 per cent. Taxation also rose.

There are two main reasons for the government's failure to achieve its basic target of cutting spending: first, its commitment to increase defence spending, which rose by 30 per cent in real terms; second, a rise in the social security bill of some 30 per cent, accounted for by the rising number of claimants, the casualties of the recession. If social security is excluded, social spending fell in real terms by the order of 10 per cent. Among these areas, housing suffered the deepest cut - of 70 per cent.

As we have seen in Chapter 1, these changes, however limited, reinforced the natural tendency of the recession to accentuate poverty and widen inequalities. While the social security budget rose because of an increase in the number of recipients, individual benefits were cut. One benefit - the earnings-related supplement for the unemployed - was abolished, making the short-term unemployed much worse off and forcing them onto supplementary benefit. Long-term benefits (such as pensions) were raised in line with inflation rather than with earnings, as in previous years. This meant that,

by 1983, single pensioners and the disabled were around £1.45 a week worse off, and couples around £2.25 a week, than if that link had been maintained. Child benefit and unemployment benefit were allowed to fall in real terms but were then, as a result of backbench pressure, restored in the April 1983 budget. Even so, benefit cuts over the life of the government amounted to some £1.6 billion. Not only was there a sharp increase in the numbers on benefit, benefit levels were reduced, amounting to a direct cut in the incomes of the poorest. On top of this, cuts in housing reduced opportunities for those in housing stress and sharpened inequalities in the distribution of housing subsidies.

The failure of the first Thatcher administration to achieve its overall objective of cutting public spending gave rise to widespread speculation about future Conservative intentions for the welfare state. In 1982, *The Economist* published extracts from a confidential report from the Central Policy Review Staff on 'options for radical cuts in public spending, many involving the dismantling of huge chunks of the welfare state' (18 September 1982). Ideas considered in the report included the introduction of voucher schemes in education, the ending of indexation for state pensions in order to encourage private provision, and the use of private insurance for the finance of health care. This was followed by the leaked minutes of the Family Policy Group - a cabinet sub-committee of senior ministers - to the *Guardian* in February 1983. These minutes showed that serious consideration was being given to a range of options for reducing state spending on welfare provision (*Guardian*, 17 and 18 February 1983).

The current direction of government policies

In June 1983, the Conservatives were returned with a much larger majority though a slightly smaller share of the vote, renewing speculation about the future of the welfare state. To some extent it is easy to exaggerate the crisis facing welfare spending. There are certainly some pressures likely to lead to an

increase in the cost of maintaining existing provision - in particular some demographic trends, the rising relative cost of some public services and pension commitments. Despite this, the government's own medium-term forecasts suggest that current spending and tax levels can be maintained with little difficulty on projected growth rates (Treasury, 1984). Certainly, the economic climate has become slightly more favourable, with the return of a modest level of growth. If this growth is sustained, reducing public spending as a proportion of GDP will be easier to achieve.

The government, however, has a long-standing pledge to cut the real level of public expenditure and taxation and this will prove much more difficult. It has already cut heavily in areas such as housing and industry, which are the least politically sensitive and where there is less likelihood of public backlash. There is little scope left for further cuts here. It has chipped away at social security. It is unlikely that unemployment will fall enough to allow anything other than marginal savings on social security spending. In addition, the government is committed to at least maintaining spending in areas such as law and order and defence.

If it wishes to cut the real level of spending, therefore, it has two options. First, it could reduce spending in major service areas such as social security, the National Health Service, education and the personal social services. Cuts in two of these areas - social security and the personal social services - would not only help to satisfy the macro-economic objective of cutting public spending but would also meet Mrs Thatcher's ideological belief that the social responsibilities undertaken by the state - such as care of the elderly, the disabled, the under fives and the young unemployed - should be transferred to families and charities, with much greater emphasis on self-help and much less on state protection. Moreover, accounting for over one-third of all public expenditure, the social security budget offers the theoretical potential of large savings. Yet, without a significant fall in unemployment, the options for savings in the social security bill are limited. They would require cuts in the *real* level of benefits.

The Conservative manifesto was careful to give a commitment to protect pensions and other long-term benefits against rising prices. This has led to speculation that unemployment benefit and child benefit would be vulnerable. A cut in unemployment benefit has been advocated by some academics on the right, especially Professor Patrick Minford of the University of Liverpool, as a way of reducing wages and unemployment. Minford (Minford *et al.*, 1983) has argued that high wages, especially at the bottom end, are a key cause of unemployment. In his view, Britain's low international productivity means that jobs can only be created at lower wages but people do not take jobs at low wages because of high benefits. In order to increase the incentive to work, he therefore advocates widening the margin between income in and out of work by a combination of policies designed to increase net income in work and reduce income when out of work. The latter would involve cutting unemployment benefit. Although Professor Minford's views are not widely supported by other academic economists, they certainly command widespread support among some sections of the Conservative party. That unemployment benefit is vulnerable under the present government was indicated in an interview given by Mrs Thatcher immediately after the election in the *Daily Express* of 15 June: 'I would not give an undertaking that unemployment pay would be price protected in the same way as pensions'. In an interview on Channel 4's *Face the Press* on 3 July 1983, the new Chancellor, Mr Nigel Lawson, confirmed that the level of unemployment benefit was under consideration in a new round of spending cuts being looked at by the new cabinet. This simply confirmed the fears of many Tory wets and unleashed a storm of protest.

Another benefit that has looked vulnerable has been child benefit. At a cost of nearly £4 billion a year, cuts in child benefit inevitably look financially attractive to a minister looking for substantial savings. In consequence, there has been speculation that child benefit might be restricted to lower-income families by, for example, phasing it out in favour of a

beefed-up means-tested benefit similar to family income supplement.

In the event, despite a new round of public spending cuts announced in the Autumn after the election, child benefit and unemployment benefit have both been protected to date. The social security budget, however, did not emerge unscathed - it was housing benefit that was the victim, suffering a swingeing cut of £230 million. The impact of the cut was devastating, with some 4½ million recipients being affected. Half a million households lost their right to housing benefit completely, while the average loss of benefit worked out at £1.57 a week, with some families losing far more - up to £12.00 or more a week (Goss and Lansley, 1984). Ferociously complicated, the government no doubt hoped it would be able to slip through these cuts unnoticed. As it turned out, however, some shrewd campaigning by groups such as SHAG, the London Housing Aid Centre and the Child Poverty Action Group led to considerable publicity and embarrassment for the government. This did not deter it from its course, however, and, although phased, the cuts were implemented.

The cuts in housing benefit have been felt exclusively by those on low, if not the lowest, incomes. The very poorest have been largely, but not entirely, protected. It is the moderately poor who have suffered most - those on low wages and pensioners with small occupational pensions in particular. The impact has been to reduce still further the incomes of the poorest quarter of the population, a group that the *Breadline Britain* findings outlined in Part I showed was liable to be living below an acceptable living standard.

As an alternative, the government could go for some genuinely radical options, such as those advocated by Professor Minford (1984). His proposals amount to more or less the wholesale abolition of the welfare state, and could cut public spending by one-third. They include the replacement of the National Health Service with private health insurance, the abolition of state schools and the privatisation of education, the privatisation of many local government services, cuts in unemployment benefit and the introduction of a negative

income tax to replace existing social security. Such changes would, of course, have dramatic implications for social and economic inequalities and wider opportunities. They are almost certainly a non-starter, and have been described by the former Conservative Foreign Secretary, Francis Pym, as a 'political dreamland' (*Guardian*, 5 May 1984).

The road from welfare

What is clear is that the government is considering how changes could be made to achieve savings. In April 1984, the Social Services Secretary, Norman Fowler, launched what he described as 'the most substantial examination of the social security system since the Beveridge Report 40 years ago'. Inquiries have been launched into supplementary benefit, housing benefit, help for the disabled and help for young people. There is much speculation about what these inquiries really have in store - more cuts (whether substantial or minor) or some fundamental restructuring. Whatever happens, the prospects for welfare services and those who depend most heavily on them look at best uncertain. Before going down any of these roads, however, Mrs Thatcher would be unwise to ignore public opinion, and it is to that we turn in the next chapter.

