

The Richard M. Titmuss Memorial Lecture

LABOURISM AND THE WELFARE STATE

IN THE 1980'S

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by

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Mr. Frank Field, Member of Parliament in Great Britain, delivered the 1982 Annual Richard M. Titmuss Memorial Lecture on April 26, 1982 at the Paul Baerwald School of Social Work at The Hebrew University of Jerusalem.

This lecture series was instituted with the support of the Friends of Israel Educational Trust. A British expert in social welfare is invited to Israel each year to meet with persons in the field of social work, to visit appropriate institutions as well as to deliver the Annual Titmuss Memorial Lecture.

The Man

I was not taught by Richard Titmuss but I was aware of his name, in the way undergraduates are aware of the big names in their field of interest. As a young member of the Labour Party I would sometimes come across the name Titmuss in the pages of the journals and weeklies which I read. I didn't meet Titmuss until some time after I began working for the Child Poverty Action Group and that was not until 1969. To this day I have still not read most of his works, although the way I think, and what I have to say today, has been greatly influenced by what he wrote.

Anyone wishing to alert themselves to the fine qualities of this man, to appreciate his range of interests, as well as to gain an outline of his ideas, is advised to seek out a copy of Margaret Gowing's tribute published by the British Academy¹. What is missing from this account and, given the circumstances in which I was dealing with Titmuss, I saw, was an element of human frailty mingled with the greatness. Indeed, this frailty threw into stark relief Richard's finer qualities.

A memorial lecture is no place to dwell upon a single side of anyone's nature, particularly if the lecturer is in no position to give a balanced picture. In passing, though, it is worth registering a disappointment that the uncritically adulatory style of Victorian

biographies has left its mark on more modern appreciations. Yet what needs to be said without reservation is that the world is a better place because of Richard Titmuss's study of those institutions aimed at increasing human happiness - and that can't be said of all that many people. Central to his interests was the welfare state in Britain, although I know it is a phrase of which he disapproved. This phrase does, however, have the distinct advantage of being a form of words which most people in Great Britain readily understand, and it is in this area of the welfare state that marked changes have occurred since Richard's death in 1973, and particularly since the advent of the Thatcher Government.

In this memorial lecture I want to touch upon three themes. The first begins to look at the reasons for the fairly widespread unease which the electorate is now expressing about Britain's welfare state. This unease or disquiet helps to explain why the Thatcher Government has been successful in cutting the real level of welfare without there being any noticeable electoral backlash. The lecture's second theme examines what has been called 'the strategy of equality'. Here I question whether the establishment of a welfare state was or should be primarily about gaining greater equality of income. Rather, I see the establishing of a basic equality of citizenship as welfare's central objective. To finance the welfare state on much more progressive lines is, however, a desirable goal and should be pursued more actively and intelligently than it has been hitherto. The third theme of this memorial lecture therefore illustrates those fiscal changes which will do just this, while at the same time releasing the resources to begin again the attempt to establish the social rights

of citizenship which I see to be the central objective of the welfare state.

1. Disquiet

The years since 1979 have been remarkable in a number of respects, not least in the way the Government has broken a welfare consensus which had lasted for more than thirty years. Prior to the Thatcher Government the last time benefits were cut in money terms in Britain was way back in the 1930s. Some of you may remember that the then Labour Government in 1931 resigned rather than cut unemployment benefit. The ensuing National Government did just this, but as prices were also falling, and falling at a faster rate than the cut in benefits, the real value of unemployment pay was not only maintained but improved. That has not been the story this time. Unemployment and sickness benefit has been reduced in real terms, and this reduction was accompanied by the first ever cut in old-age pensions - a cut which was later restored. The earnings related supplements paid to national insurance benefits have been abolished although the Government continues to collect contributions for this series of non-existent benefits, and plans are afoot to make employers pay the first weeks of sickness benefit. The Thatcher Administration has also introduced a formula whereby it will almost certainly be able to raise the supplementary benefit level - which is taken as Britain's poverty line - at a slower rate than the general rise in prices.

How is it that the Government has been able to get away with cutting almost £1.5 billion from the social security budget? To begin answering this question we need to go back and look at the debate surrounding the establishment of the welfare state for it was then that the electorate was

established and that the revenue to finance this breakthrough would be raised in a progressive manner.

Nobody who has canvassed in Britain can be unaware of the resentment many lower middle-class and working-class people feel at the amount the Revenue takes from their often hard-earned wage packets or salary cheques. Indeed, the promise of tax cuts was for many voters the most attractive part in Mrs. Thatcher's 1979 general election campaign. And the complaints on the doorstep about the inhabitants' tax burden are not wild and baseless. In the post-war period the tax burden has shifted in two directions: as the years have gone by more and more people on lower and lower incomes have been brought into tax for the first time; simultaneously this vertical shift in the burden of taxation has been accompanied by a horizontal one as those taxpayers with children have found their tax bills rising faster than childless taxpayers.

These two trends can be seen from the following information. Taking the 1949 tax year as the base, a single person on average earnings has seen the percentage of his income taken in tax and national insurance rise by 106 per cent in the years up to the 1982 tax year. For a married couple the increase is 132 per cent and for a couple with two children a staggering 712 per cent. The same, although less marked, trends can be seen for similar groups right up the income scale.

Public unease about the welfare state also stems from the evidence that it has failed to establish a national minimum. You will recall that the aim of the Beveridge reforms was to eliminate the five great social evils of that time. These were Want, Disease, Ignorance, Squalor and Idleness, and Beveridge believed that Want is 'in some ways easiest to

The great evil of Want - or, as we would call it today, poverty - was to be eliminated by the payment of non-means-tested benefits when a person's earnings had been lost - during periods of sickness or unemployment, and of course in old age - together with the additional payments of family allowances (now renamed as child benefit) to those working parents with children.

What went wrong with the most ambitious of all attempts in Britain to break the power of the market place in determining living standards of working people is recalled elsewhere. The only issue of importance to note here is that there was nothing fundamentally wrong with the principles of the Beveridge Scheme. Failure to eliminate poverty stemmed from the less than universal coverage of the national insurance benefits together with the payment of these benefits at too low a level.

The result has been not only the continuance of a system of means-tested - or topping up - benefits, but an ever-increasing number of people having to resort to them. At the present time 8.5 million people live in households claiming supplementary benefits, and, in addition, over 1.1/4 million draw rent rebates or allowances.

An additional feeling of unease about Britain's welfare state stems from the belief that it redistributes income in the wrong way - from poorer to richer people. This is a view which has been officially disputed until only very recently.

The official view comes from the Central Statistical Office (CSO) which each year produces what is in effect a welfare balance

the payment of benefits and services on the other. Up until this year this annual report on the redistributive effects of the welfare state put forward the reassuring conclusion that the welfare state is achieving its objective in lessening income inequalities.

These somewhat reassuring findings of the CSO analysis have not gone unchallenged. Some specialists have pointed out that the CSO analysis should not be given too much credence given the fact that 58 per cent of government revenue and 46 per cent of government expenditure was unaccounted for in this annual balance sheet. More recent work has shown that the findings of the CSO analysis varies significantly depending on what assumptions are made about the very large residual of unaccounted government expenditure and revenue in the analysis.

2. The Strategy for Equality

While the latest CSO analysis admits for the first time to an increase in inequality between 1976 and 1980³ this debate has been taken onto an entirely different plane by the publication of a substantial piece of work by Julian Le Grand. In his The Strategy for Equality⁴ the author sets out to analyse who gains most from public expenditure on health care, education, housing and transport. But first Le Grand begins by examining why socialists attach an importance to a high level of public expenditure; it is viewed, he maintains, as the route to greater social and economic equality. Le Grand tells us that one of the clearest exponents of this 'strategy for equality' was R.H. Tawney who explained it in the

following terms:

'If every individual were reared in conditions as favourable to health as science can make them, received an equally thorough and stimulating education up to 16 and know on reaching manhood that he and his family could face the risks of life without being crushed by them, the most shocking and existing inequalities would be on the way to disappear'.⁵

And Tawney optimistically added, 'Even inequalities in income would not continue in such circumstances to be, either in magnitude or in kind, what they are at present'.

But have things worked out like this? Le Grand finds that they haven't and puts forward two main findings. The first is that:

'Almost all public expenditure in the social services in Britain benefits the better off to a greater extent than the poor. This is not only true for services such as roads where, due to the insignificant role played by a concern for equality in determining policy, such an outcome might be expected; it is also true for services whose aims are at least in part egalitarian, such as the National Health Service, higher education, public transport and the aggregate complex of housing policies'.⁶

His second conclusion is equally challenging:

'As a result equality, in any sense of the term, has not been achieved. In all relevant areas, there persist substantial inequalities in public expenditure, in use, in opportunity, in access and in outcomes. Moreover, in some areas (though by no means all) there is evidence

to reduce inequality significantly'.⁷

Le Grand locates the failure of the public expenditure strategy to achieve equality in its inability 'successfully to counteract the influence of the more fundamental social and economic inequalities that still pervade British society', and concludes, 'a more promising way of achieving equality of whatever kind would be through equalising incomes'. Some will argue from Le Grand's analysis that public expenditure should be cut still further, if not abolished, and the money incomes of the poor raised. While it is important to be reminded of the crucial importance of redistributing income to poorer groups, this is not the whole story.

In the first place it is profoundly mistaken to suggest that the public provision of services is bound up only with a 'strategy for equality', the success of which is measured exclusively by its effect on inequalities in income as it is throughout Le Grand's book. For it was Tawney and others who maintained that the provision of common services helps to ensure what is best called an equality of citizenship. The most powerful exponent of this view has been T.H. Marshall who set the debate in a wide historic context, and who shows that in some important respects an equality of citizenship has been achieved notwithstanding the continuance of a wide measure of income inequality.

In examining the last three centuries Marshall categorises the growth of citizenship into three phases.

'I shall call these three parts, or elements, civil,

of the rights necessary for individual freedom - liberty of the person, freedom of speech, thought and faith, the right to own property and to conclude valid contracts, and the right to justice By the political element I mean the right to participate in the exercise of political power, as a member of a body invested with political authority or as an elector of the members of such a body By the social element I mean the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society'.⁸

Put in these terms the development of the welfare state is not seen only or necessarily in terms of equalising income. Again in Marshall's words:

What matters is that there is a general enrichment of the concrete substance of civilised life, the general reduction of risk and insecurity, and equalisation between the more and lessfortunate at all levels - between the healthy and the sick, the employed and the unemployed, the old and the active, the bachelor and the father of the large family. Equalisation is not so much between classes as between individuals within a population which is now treated for this purpose as though it were one class'.

And Marshall adds significantly, 'Equality of status is more important than equality of income'.⁹

The welfare state should therefore be seen in terms primarily of guaranteeing a basic human equality of membership of a society.

provided services and benefits. Moreover, in this area of life people would be providing for themselves and for others in the spirit of co-operation rather than competition.

3. Greater Equality of Income

This does not mean, however, that socialists shouldn't be concerned about gaining a greater equality of income and the opportunity the welfare state offers in this direction. Indeed, earlier I commented on the growing public disquiet about much of the welfare state and linked this to the ever-increasing tax burden now placed on working people. As one of Britain's most perceptive political commentators has observed:

'Enthusiasm for the welfare state was understandable when manual workers were paying less than 15 per cent of their income for it; equally, it is not surprising when similar workers today feel - rightly - that they are paying too much when 30 per cent of their pay goes straight to the exchequer'. (Peter Kellner, New Statesman)

Reform of the two main forms of contributions to the welfare state - national insurance contributions and income tax - is therefore a crucial step, both in gaining a more equal distribution of income but, more importantly, in rebuilding public support for the idea of welfare state itself.

There is no question that Beveridge was right to insist that the only way to make a break with the Poor Law tradition in Britain was to establish a national insurance system. And while an insurance scheme then required the payment of contributions from all those likely to

of financing the Insurance Fund from only flat-rate contributions. His plan therefore envisaged that the employees' national insurance poll tax would play only a modest part in the financing of the main cash benefits. The scheme would become more progressive as time went on for the Exchequer contribution - which it was thought would be collected along progressive tax lines - would foot an ever-increasing proportion of the National Insurance Fund. Beveridge's idea was for an Exchequer contribution covering almost 70 per cent of the cost of national insurance benefits by 1975. In fact, the opposite has occurred. Government have drawn an ever-increasing revenue from the poll tax contributions imposed on employer and employee and by 1981 the Exchequer contribution had fallen to 13 per cent of the total insurance fund.

Since 1948 national insurance contributions have been remodelled in two ways. A graduated pension scheme was introduced in 1961 and workers earning between £9.00 and £15.00 a week were required to pay a graduated contribution as well as a flat rate poll tax. In 1975 the entire basis of national insurance contributions was remodelled with contributions being based on a proportion of income over certain bands of income. At the present time contributions stand at 8.75 per cent of all income between £29.50 and £222.00 a week.

The disadvantages of this new method of collection are considerable. Contributions to the Fund become payable on income way below the official state poverty line, and the fact that there is a ceiling on the level of contributions favours the highest paid. Clearly anyone interested in reforming the national insurance scheme

for two reforms: the removal of the national insurance contributions as a basis for eligibility for benefits, and the remodelling of contributions as part of a progressive system of direct taxation.

This brings us to a discussion of the income tax system and reforms here will have to be far more reaching. This year, less than 50 per cent of personal income in the U.K. will be taxed. The reason for this rather surprising state of affairs is due to the growth of the tax benefit welfare state. At the present time there are over a hundred major tax benefits, and as these benefits are of greater value to those on higher incomes, the tax benefit welfare state helps to widen income differences. And as the tax benefit welfare state has become more generous - i.e. exempting an ever-growing amount of income from tax - it has resulted in that, for a given level of revenue, income tax is being levied at a high marginal rate and on lower and lower incomes. Three reforms need to be pursued if the income tax system is to be restructured along more progressive lines.

The first is to allow all tax benefits at the standard rate of tax only. At the present time tax benefits can be offset against the taxpayer's marginal rate of tax. They are therefore of greatest value to highest income groups.

A second reform is to put a cash ceiling on all tax benefits other than the personal allowances (the main personal allowances are the single person's, the married couple's and the wife's earned income relief). How such a policy would work can be seen if we take just one of the main tax benefits. About £2 billion is paid out in mortgage

interest relief. It would be wrong to wipe out this benefit overnight, but a cash ceiling could be applied at the current level and this sum spread over a growing number of owner-occupiers in succeeding years.

The revenue gained from this particular reform is considerable. Had it been implemented in 1975 the additional revenue from applying a cash ceiling policy to just four tax benefits - mortgage interest relief, pension schemes, life assurance premiums and retirement annuity relief for the self employed - would have amounted to £3.8 billion over a five year period and, in the last year alone, the Exchequer would have collected an additional £1.8 billion. This illustrates just how fast the expenditure on tax benefits is growing.

A third reform must centre on redistributing income from men to women while at the same time persuading taxpayers to spread more effectively the income earned from up to forty years' work over the two vulnerable periods of most people's lives - when they have children and when they retire. The lead-in to this reform centres on the married man's tax allowance.

Married women at present gain a tax benefit through the working lives of their husbands, and the tax benefit is paid to their husbands. Some groups advocate the abolition of the married man's tax allowance but I do not think this can be justified. The peak period of working-class affluence is when both parents are working and the children have grown up. Given the low level of family support in the past we should not penalise those families now just because their children have reached maturity.

I do believe it would be politically possible, however, to apply a cash ceiling to the married man's tax allowance and for the money to be channelled to households with children under 5. If this cash ceiling approach had been applied to the married man's tax allowance in 1975/76, then by last year the cash payment for households with children under 5 would have stood at £10.00 a week. A reform along these lines would initiate a steady redistribution of income from men to women and at the same time begin the process of matching people's income to their lifetime's needs.

Part of the large increase in revenue resulting from reforming the tax benefit welfare state should be earmarked to raise the tax threshold (the starting point at which people pay tax) and to cut the rates of tax. But by increasing the tax base in the way described, funds will also become available for ensuring that greater equality of citizenship is gained in respect to the social rights described earlier by Marshall.

A key benefit in remodelling the welfare state so that it acts as a floor on which people can build by their own efforts is the child benefit scheme. The larger the injection of funds into this scheme the greater will be the decrease in the numbers of poor families i.e. the more effective the welfare state will become. Because child benefit is deducted from social security payments, the larger the child benefit the greater the incentive to work is for those low wage earners with children - although at the present time in Britain we have to be more concerned with people being offered jobs rather than a refusal to take what work if any is available. Similarly, a major child benefit

families over the past twenty years or so.

A flourishing child benefit system has another advantage. It transfers income from men to women and it increases the range of choices, and thereby the freedom, enjoyed by families. The importance of child benefit in helping to determine the type of society in Britain is difficult to overestimate.

The goal of redistributing cash should not foreclose the possibility of increasing the provision of services, and some of the funds resulting from the reform of the tax system should be earmarked for this very purpose. But if our aim is to provide services which benefit most those on lowest income, then it is necessary to choose carefully the areas in which the expansion should take place. Let me give one example. In his book Julian Le Grand looks at who gains most from the education system. He concludes by saying:

'when all the different sectors of education are taken together, the top SEG (social economic group) received over one and a quarter times the mean public expenditure and about one and a half times as much as the lowest SEG'.¹⁰

This overall figure, which shows how higher income groups benefit most from the educational system, occurs despite the fact that in respect to primary and secondary education, the children of the top socio-economic groups receive slightly less educational expenditure than do the children of other social groups. The overall average comes out as it does because in the post-16 educational system the children of the richest parents pick up the lion's share of the resources available. Richer children, as Le Grand comments:

'received substantially more expenditure in all other (educational) sectors. For secondary pupils over 16 they received over one and a half times the mean and nearly twice that for the lowest SEG; for further education, one and a half times the mean and three and a half times that of the lowest; and for universities, nearly two and three quarter times the mean, and over five times that of the lowest'.¹¹

If egalitarians have been wrong in the past it is not because we have championed the expansion of university education, but rather that this has been done at the expense of increasing educational opportunities for the 16 to 19 year old age group. Egalitarians believed that a policy of university expansion would somehow of itself lead to greater educational opportunities for working-class children. The lesson for egalitarians is clear. The cry should not be for an indiscriminate increase in the amount of public expenditure spent on public services, but rather for a bold expansion of those public services which will benefit most lower income groups.

Conclusion

In this lecture I have suggested that the decline in popular support for the idea of a welfare state in Britain stems from two main sources. In the first place the idea of guaranteeing a social equality of citizenship, whereby people are granted certain basic rights which are held in common, has not been achieved. At the same time the cost of financing a less than successful welfare state has grown and the burden has grown fastest for those on lowest incomes.

In Britain we have witnessed how the non-attendance to the two grievances has left the welfare state wide open to attack and these

attacks in the form of cutting benefits and reducing services will continue until an effective redress is made. Indeed, I believe that the future survival of the welfare state is bound up with an effective redress of these two grievances. It is necessary both to rebuild the welfare state so that it does achieve its objective in guaranteeing what Marshall described as 'the right to share to the full in a social heritage and to live the life of a civilised being according to the standards prevailing in the society'. At the same time it is crucially important to shift the burden of financing the welfare onto those with the broadest shoulders. Both these objectives can be fulfilled if the next radical government is prepared for a root and branch reform of both the financing of the National Insurance Fund and, more importantly, the direct system of taxation. In this lecture I have tried to suggest the lines along which this reform should take.