ReFRESH

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Recent Findings of Research in Economic & Social History

The welfare state is, currently, the subject of much discussion amongst economists and politicians. In recent years its scope has contracted. In this article, Rodney Lowe reviews the history of state welfare provision since 1945 and suggests reasons why it has come under pressure. Dr. Lowe argues that the failure of the welfare state to reform its administrative practices, and to alter social attitudes to it, has left it vulnerable to attack.

The Welfare State in Britain since 1945

The mid-1970s marked a watershed in both the history and historiography of the British welfare state. Until then, the memory of mass unemployment and deprivation in the 1930s remained strong and so increased state intervention was widely regarded as necessary and efficient. Such a belief was underpinned by the achievement after the War of 30 years of high employment and rising affluence. By 1975, however, the consensus had begun to crack. The economy was in serious trouble with unemployment exceeding one million and inflation reaching an unprecedented 27 per cent. Public expenditure was generally believed to have risen to 57 per cent of GDP, thereby threatening individual freedom through the creation of an all-powerful state. There was also widespread unrest amongst both the consumers of welfare (such as students) and its providers (which led ultimately to the revolt of the public sector unions in the 1979 'winter of discontent'). Excessive welfare expenditure was identified as a principal cause of Britain's major ills: her declining economic performance, her ungovernability and the creation of a 'dependency culture'. The wartime dream of a New Jerusalem had been transformed, in the words of a later polemic, into the 'dank reality of a segregated, sub-literate, unskilled, unhealthy and institutionalised proletariat hanging on the nipple of state maternalism'. [1]

Historians have tended to leave the analysis of these events to other social scientists - and are still tempted to do so [2]. As with all contemporary issues, a traditional historical balance and perspective is hard to achieve. There is also a confusion of competing theories and international comparisons. Explanations cannot be based purely on British experience as there were parallel developments in other Western countries. Yet welfare states cannot be seen as an 'inevitable' stage within capitalism because welfare services in the USA and Japan have developed very differently. Effective analysis also demands, as Peter Baldwin has argued, a knowledge of the 'technical and abstruse' details of many different policies. [3] Finally there is no agreement over what a welfare state is. To one leading commentator who pioneered the postwar study of social policy, Richard Titmuss, it remained forever an 'indefinable abstraction'.

However, fifty years have now passed since the publication in December 1942 of the Beveridge Report - the document which many regard as the blueprint of the British welfare state. Historians have gingerly entered the field.[41 This article summarises some initial findings and suggests a framework in which they might be collated.

The chronology of the welfare state

Most governments are concerned with their citizens' well-being and so may be, and have been, called 'welfare states'. However, the term only came into common usage in Britain in the late 1940s and thereafter spread throughout the world. The term was needed to express two major changes to the role of government which followed the Beveridge Report: widespread reconstruction

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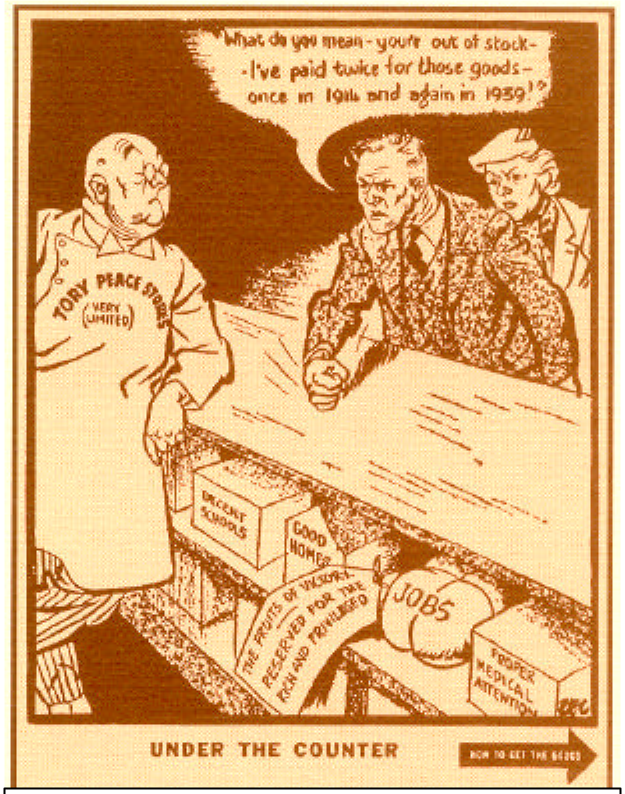
planning during the War and the implementation by the Labour Government on the 'Appointed Day' in July 1948 of major reforms such as the National Health Service and National Insurance. First, government was committed to the positive promotion of individual welfare. This is best illustrated by the all-party commitment in 1944 to the 'maintenance of a high and stable level of employment' - not just the establishment of the conditions in which 'full' employment might be attained by the market.

Secondly, welfare policy was to be universal and comprehensive. Previously policy had been targeted on manual workers and been very uneven in coverage. Now every-one was to be guaranteed against all risks to their income as well as being provided with a range of other services. Freedom from poverty had been a privilege of the rich. Now it became the right of all. Everyone was acknowledged, in the words of a leading postwar sociologist (T.H. Marshall), to be of equal social worth'. These principles were largely sustained throughout the period that Anne Digby has called 'the classic welfare state'. [5] In 1976, however, the commitment to full employment was abandoned by the then Labour Government. Government revenue fell, each social service came under severe financial pressure and in 1977/8 welfare expenditure as a whole was cut in real terms by almost 5 per cent. Thereafter, however, it resumed its rise - despite the election in 1979 of a Conservative Government under Margaret Thatcher committed to 'rolling back the state' and ending the 'dependency culture'.[6]

This was due in part to irresistible demand (not least from the rising number of unemployed, and of the old) and in part to electoral pressure.

Not until 1987 was there a serious attempt at radical reconstruction, with a new emphasis being placed on government as the financer and regulator - not the provider - of services.



One reason for the election of a Labour Government in 1845 and the creation of a welfare state was the popular demand, accentuated by the War, for social 'rights' which had previously been only available 'under the counter' for the better-off'. These rights significantly included the right to a job. This cartoon from the Daily Mirror, which actively campaigned for the election of a Labour Government, suggested that the Conservative would break wartime promises just as Lloyd George had broken his promise to create a 'land fit for heroes' after the First World War. Welfare expenditure nevertheless had risen considerably under interwar Conservative and National Governments.

The scope of the welfare state

The scope of the welfare state, as Titmuss recognized and as the 1970s showed, is an area of considerable controversy. It has always included five core social services. Of these, as Table I demonstrates, social security is the most expensive. Indeed, in the 1960s it supplanted defence as the most expensive item of government expenditure. Over half is spent on the elderly. The National Health Service was initially the next most expensive but it was overtaken by education in the late 1950s. Nevertheless, the NHS has continued to be widely regarded as a synonym for the welfare state because, for many, it represents its ideal: an optimum level of care is provided for all free at the point of delivery where - as, for example, social insurance only offers a minimum payment to those who have already qualified by the payment of contributions. Expenditure on housing is depicted as having been in relative decline but, to an extent, this is an illusion. Government accounts conventionally exclude expensive items such as mortgage interest tax relief for owner-occupiers (at 45.2 billion in 1988/9) and housing benefit for those in need. Finally, the personal social services have remained the Cinderella service, despite the professionalisation and consolidation of social work after the publication in 1968 of its own 'Beveridge' Report, the Seebohm Report on Local Authority and Allied Personal Services (Cmnd 3703).

To these services may be added others. In particular, the maintenance of 'full' employment was widely regarded as an integral part of the welfare state before 1976. Not only did it ensure the solvency of other services by maximising government tax revenue and minimising claimants' demands but also, as Beveridge himself argued, individual welfare may be seen to depend more on the satisfaction of a rewarding, well-paid job than on the receipt of government hand- outs. In the 1950s, taxation was identified as another key element of the welfare state on the grounds that individual welfare can be affected as much by how government revenue is raised as by how it is spent. [7]

Since 1945 taxation has in fact become increasingly regressive and thus less redistributive of resources from the rich to the poor.

The tax threshold (or level of income) at which income tax becomes payable has steadily decreased so that by the 1960s, somewhat absurdly, many with incomes below the official poverty line became liable for tax. There has also been a consistent switch from graduated direct taxation to flat-rate indirect taxation (particularly VAT in the 1980s). At the same time tax relief for individuals (for example, mortgage. interest tax relies and companies (for example, on company cars) has increased - relief which Titmuss called 'fiscal' and 'occupational' welfare. It has been estimated that such relief for the better-off reduced government revenue from income tax by 40 per c ent in the early 1970s. It was therefore a major reason why the less well-off had to be taxed more heavily.

It is extremely difficult to establish the cost of the welfare state.[4] Relief from tax liability is in many ways a transfer of resources from government to individuals similar to the payment of pensions and other insurance benefits. Yet its cost has not conventionally featured in government accounts. It might be argued that taxpayers are merely being allowed to retain their own money - but insurance benefits are them- selves a return on weekly contributions paid throughout an individual's working life. Some consistency is required. More importantly, transfer payments do not consume resources, as do other types of government expenditure such as the building and staffing of schools. Strictly, therefore, they should not be included in calculations of the amount of national wealth consumed by government. Had they been excluded, government expenditure as a percentage of GDP could have been depicted in 1975 as 33 per cent, not the alarmist 57 per cent.

The cost of welfare

% of total welfare expenditure

	1951/2	1961/2	1971/2	1976/7	1981/2	1987/8
Social Security	33	38	39	37	43	45
Education	20	24	26	24	22	22
Health	23	21	21	20	21	21
Housing	20	13	12	16	10	8
Personal Social Services	2	2	3	4	4	4
Welfare expenditure as % of public expenditure	43	41	47	55	52	56
Welfare expenditure as % of GDP	16	16	20	26	24	23

Table 1 Based on [4] and [6]

The objectives of the welfare state

The pressures which led to the creation of the welfare state, as Pat Thane demonstrated in REFRESH 6, were many and varied. Three were predominant in the 1940s. First, there was an administrative drive for the greater standardisation of services which wartime evacuation had exposed as extremely uneven. Secondly, there was a humanitarian desire to establish a minimum standard of life for all - a concept pioneered by the Webbs before 1914. Thirdly, there was a technocratic determination to attain a more efficient use of resources. Keynes had demonstrated that a free market might not always achieve full employment. Consequently productive resources might, as in the 1930s, be wasted. Other economists have also argued that, in an increasingly complex world, services can be better provided collectively than through the market. For example, the NHS - which is directly financed and administered by government - can prevent the misallocation of resources which is likely to occur in the market, as a result of the imperfect knowledge of consumers and of imperfect competition between producers. Its adrninistrative costs have also been relatively lower than those of health services financed by private insurance (as in the USA) or by compulsory social insurance as in continental Europe).[8]

A fourth objective was also present in the 1940s: a demand for greater equality. When this meant a greater equality of 'status' or treatment by the state (as in Beveridge's proposals for flat-rate insurance contributions and benefits) or equality of opportunity (as reflected in the 1944 Education Act) it was relatively uncontroversial. However, it could also mean, and increasingly came to mean, greater equality of outcome. This required not only positive discrimination in favour of the least well- off, as was attempted with the creation of Education Priority Areas in the 1960s, but also a significant redistribution of income and wealth - and ultimately political power. Beveridge had specifically opposed such ‘vertical' redistribution between classes, favouring only 'horizontal' redistribution within given income groups or over an individual's life.

Equality of outcome duly became the most controversial issue in welfare politics and, in monetary terms, there has been little progress towards it. Recently, for example, it has been established that welfare services do redistribute resources from the 'top' 60 per cent to the 'bottom' 40 per cent of households, but the gap between their 'final incomes' remains wide, and is even increasing because of differences in their 'original' pre-tax income, the increasingly regressive tax system and the disproportionately high take-up of expensive services such as higher education by the relatively well-off. Consequently, there has since the War been some redistribution of income and wealth within the top 50 per cent of households, but very little to the bottom 50 per cent.191 Money should not be taken, however, as a proxy for welfare. Welfare is also dependent on a range of less tangible assets, such as the peace of mind arising from the automatic right to free health care. These have been shared far more equally since the War.

In the 1970s the welfare state came under more fundamental attack. The New Right, well represented in the publications of the Institute of Economic Affairs, argued that it was far less responsive to changing public demand than the market. Its expansion was determined not by the needs of consumers but of the producers, mainly politicians seeking votes and civil servants wishing to further their careers.[10] At the other extreme, Marxist commentators claimed that its essential purpose was to reinforce capitalism. Welfare expenditure should, they argued, be viewed either as social capital (boosting profitability by providing industry with assets, such as a healthy workforce, which it could not itself finance) or as social expenses ('buying off' unrest by removing some of the market's greatest inequities, such as unequal access to health care).[11] Feminists also attacked the welfare state as being, in essence, a mechanism for maintaining the dominance of men over women. In relation to the NHS, for example, they did not deny the material advantage which women gained from the right to free health care - a right they had badly needed in the 1930s. However, both in its caring role and as an employer, the NHS surreptitiously reinforced patriarchy. Power was held by doctors who were predominantly male. This meant that the importance, and even the existence, of female specific illness was often ignored. With women being the majority of those in subservient positions, such as nurses and ancillary workers, the NHS also provided a prime example of the sexual division of labour.[12]

More recently a new explanation has been advanced for the greater acceptability of state welfare in the 1940s. Peter Baldwin has argued that those who had previously been self-reliant came to fear that, because of increased longevity and higher expectations, they could no longer independently afford such necessities as pensions, health care and education.[3] Consequently they dropped

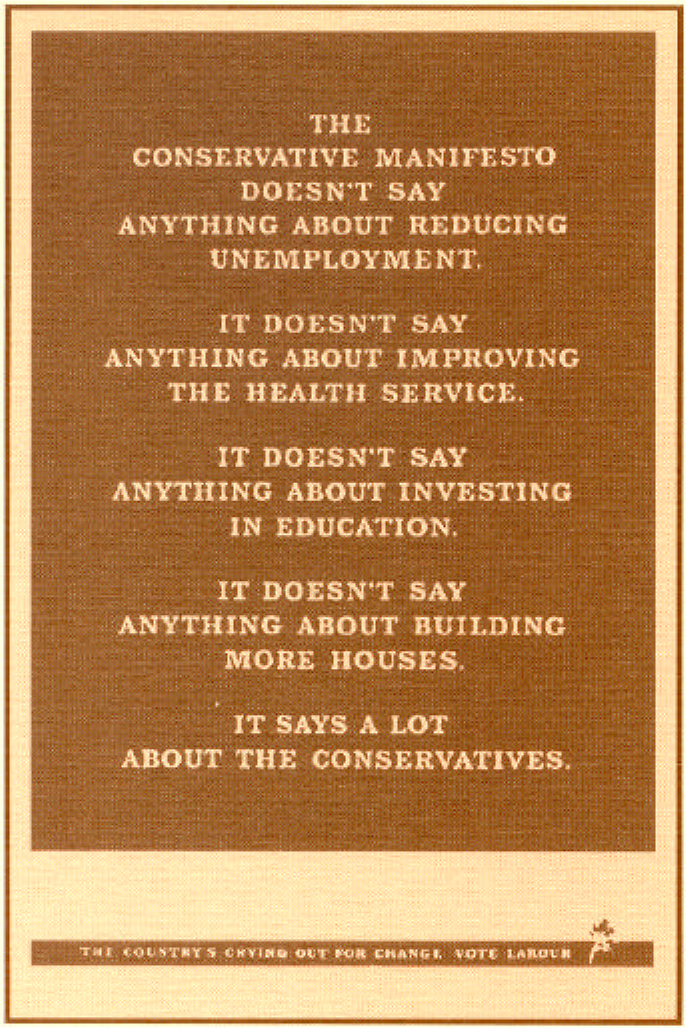


Illustration 2

In the 1987 election, the Labour Party returned to the theme that the Welfare State was not safe in Conservative hands. The Conservatives rightly replied that the welfare had consistently expanded in real terms - if not as a percentage to GDP - since 1979. It had only fallen once, under Labour, in 1977/8. The change the election brought was not a Labour Government but an attempt to transform the welfare role of government form the direct provision to the mere financing and regulation of services.

their long-standing opposition to collective provision because they themselves wanted its security. This argument is particularly persuasive because it became increasingly apparent in the 1950s that the middle class, or those who were not previously covered by compulsory insurance, did indeed enjoy a disproportionate share of universal services such as health care and education. Middle-class self-interest can also explain the resistance, already noted, to the 'vertical' redistribution of resources and, conversely, to the contraction of universal services after 1979. In the 1980s the real cuts were not in mainstream services such as pensions but in those benefits, such as unemployment pay and council-house subsidies, which were targeted on an 'undeserving' minority.

Conclusion

Despite the long-standing tradition of self-help, voluntary care and decentralised government in Britain, the pressure for greater state intervention was irresistible by the niid-1940s. This was in part an administrative reaction to the increasing complexities of modem society, and in part a political response to electoral pressure generated by the advent of democracy in 1918. It was also a short-term reaction to the perceived wastage of the 1930s and the relative efficiency of wartime government. Collective action was widely acknowledged to have considerable potential for the promotion both of economic efficiency and of individual welfare.

For this potential to be realised, however, a revolution in administrative practice and popular attitudes was needed to match that in the range of government responsibilities. This was not achieved - at least with sufficient speed. Politicians did not act with the disinterest, nor did civfl servants acquire the managerial skills, which earlier proponents of state welfare such as Keynes and Beveridge had regarded as essential. When institutional reform was attempted belatedly in the 1960s, it was in the main an extravagant failure. With regard to popular attitudes, materialistic instincts were encouraged by rising affluence and mass advertising, and so consumers of welfare tended to concentrate more on the rights which government was deemed to guarantee them rather than their own reciprocal obligations. Thus government was expected to maintain full employment without the lifting of traditional restrictive practices by either side of industry. Similarly, individual taxpayers expected improvement in services they them-selves used, but did not expect an overall increase in their tax bills.

As a result of this managerial and political failure, the welfare state was left vulnerable to attack in the mid-1970s. Social policy was seen not to have eradicated poverty. Five million people remained on or below the official poverty line (although, admittedly, this line had been raised in conjunction with rising living standards since 1959). Economic policy appeared to be destabilising. Above all, government had not been able to demonstrate, as Beveridge had hoped, that through the creation of a healthy, educated, mobile and well-motivated workforce, welfare policy was a precondition for - and not an impediment to - economic growth. In the 1980s the scope of the welfare state contracted. Real expenditure on social services did not fall, but with a return to the belief that welfare expenditure was an enemy and not a complement to economic policy, any increase appeared - as in the 1930s - grudging and mean. The resort to a noninterventionist economic policy also failed to prevent the continued presence of another feature of the 1930s: mass unemployment.

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