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## **Making the Case for the Welfare State**

### **Abstract**

The UK welfare state is under unprecedented attack from (1) harsh spending cuts, focussed particularly on benefits and services for women, children, low-paid people and claimers of working age, and (2) a profound restructuring programme, which is fragmenting services and embedding private provision across the state sector. It is proving surprisingly difficult for pro-welfare state actors to make a case for generous state welfare that is both inclusive and electorally attractive. This paper analyses why this is so and what can be done about it. It discusses trends in the development of state welfare and in the way the issues are understood, the trilemma that pro-welfare policy-making faces, proposals for new directions in policy and a reform programme that might help build a more inclusive welfare discourse. It argues that any government that wishes to build a more inclusive society must implement policies that progressively reframe the way people think about work, reward and the role of government.

### **Keywords**

Welfare state; social risks; redistribution; reframing; social inclusion

#### **1. Context**

One account of the story of the post-war development of state welfare tells the story in terms of old and new social risks (Bonoli 2005, 2007, Taylor-Gooby 2004). Welfare states after the Second World War built on pre-war traditions and institutions to provide services to meet the common needs experienced by citizens in the course of normal everyday life. They were class collaborative in the sense that needs, provision and political support cut across middle class and working class groupings (Jessop 2002). They were highly gendered in their emphasis on health care, pensions, education and interruptions to wages through short-term unemployment, sickness and disability, geared to the needs of male workers and shaped by their assumption that care services were a free good produced by the unwaged labour of women in the home (Williams 1989). They were also nationalistic in that they were based on nation-state control of the economy to guarantee high levels of employment and implement a cohesive national social contract.

The development of more open, globalised and competitive international markets coupled with technological changes and shifts away from manufacturing towards service-sector employment increasingly individualised people's experience, undermined the trade-union collectivism that had been a powerful force for state welfare and set in train the trend towards greater dispersion of market incomes. Allied with demographic shifts and changes in family patterns and in work, the entry of large numbers of women into full-time employment and the development of women's interests as a political force, these shifts also led to the emergence of New Social Risks in three main areas:

- In relation to work, to do with access to jobs, adequate wages on which to live a normal family life, security in work once a job is found, decent working conditions

and employment protection, education and training, extending to retraining and life-long work and regional issues as the centres of economic activity became concentrated in the South;

- In relation to women and family life, issues of gender equality, equal opportunity and discrimination emerged, together with pressures to provide child and elder care services as private households found it increasingly difficult to meet these needs;
- In relation to the wider range of inequalities encountered in the labour market, the need for benefits and services for those of working age became pressing: an increasing proportion of workers were unable to command a 'family wage'..

The development of new social risks (NSR) alongside old social risks (OSR) has led to major changes in the structure of the welfare state. An increasing proportion of resources is directed to NSR services. In 1979 benefits for those of working age because they were on low incomes or jobless made up about 12 per cent of social security spending, and mainly consisted of benefits to unemployed people. By 2010 equivalent provision accounted for about 36 per cent, five-sixths of this directed to families to pay rent/council tax and to supplement low wages (Browne and Hood 2012, Figure 4.3).

The UK welfare state has always been dualised between services for the mass of the population (predominantly OSR provision) and services for low-income people (predominantly to meet NSRs and often means-tested). In general OSR services (health care, pensions, education and sickness/disability benefits) are rather better funded, horizontally redistributive between life states and highly popular according to the standard interview questions of the BSA (Bamfield and Horton 2009). In contrast NSR services (benefits for low waged people in work and unemployed people) are more meagrely funded, more stringently regulated and highly stigmatic. The services to meet child and elder care needs occupy a middle position, slowly developing towards a broader range of coverage but enjoying rather less public support than the established OSR services.

NSR services to meet needs for income and labour market access are relatively cheap, accounting for five to six per cent of GDP, as opposed to some 25 per cent on OSR services. They are vital in preventing poverty rising even higher than the present 18 per cent (OECD 2013) to mirror the fanning out of market inequalities, as the UK moves from a typical European pattern of inequality to one much closer to that of the US (Figure 1, Atkinson 2007). However they are at the heart of public debate about the future of the welfare state and are central to the problems encountered by those who wish to develop a politically viable pro-welfare strategy.

The main issue here is the lack of public sympathy with welfare for jobless people and those on low incomes (Baumberg, Bell and Gaffney 2012; Van Oorschott 2000, 2006).

Unemployment fell during the late 1990s and early years of the 21<sup>st</sup> century to rise rapidly (along with insecurity and involuntary part-time working) after the 2008-9 financial crisis and subsequent stagnation. For most of that period, endorsement of the view that benefits are too

high and damage work incentives mirrored unemployment, falling when unemployment rose and rising when it fell, according to the authoritative annual British Attitudes Survey. This pattern lends itself to intuitive interpretation: people feel more sympathetic to those on benefits when it is harder to get a job and vice versa. However, during the current crisis, stigmatic attitudes have grown harsher. Despite the fact that unemployment rose from about 5.5 per cent in 2008 to 7.5 in 2009, and then continued to rise at a slower pace, agreement with the assumption that benefits function as work disincentives has continued to rise, from 53 to 65 per cent of the population. Similarly and despite increasing numbers in poverty from 2005 onwards and further expected increases in the future (Brewer et al, 2011), support for more spending on the poor had fallen from 36 to 28 per cent by 2011.

The impact of public concern about these benefits for low-waged and jobless people and their families, which are a relatively minor area of public spending, is amplified by misleading perceptions of how significant they are. A series of studies including Fabian Society (2000), Horton and Gregory (2009), Taylor-Gooby (2009, ch 9), Ipsos-Mori (2013) and many others shows that most people exaggerate the scale of short-term benefit spending, often appearing to believe that it bulks as large as or larger than pension spending and is a major driving force in the growth of the welfare state. Misconceptions about taxation also play a role. The literature summarised in Taylor-Gooby (2013a ch 2 and 3) shows that most people believe that taxes on people's incomes provide by far the greater part of state revenues. In reality, income tax finances some 25.5 per cent of state spending with employees' national insurance making up 7 per cent (IFS; OECD 2013). Popular conceptions also exaggerate the progressivity of direct taxation. These assumptions support imagery of the welfare state as primarily an engine of vertical redistribution from mass to minority and minimise the horizontally redistributive role of most social spending.

### **Explanations of benefit stigma**

In discussion of public attitudes to welfare it is helpful to distinguish short-run political factors from longer-term structural changes in society. The former include the communications by politicians (particularly but not exclusively on the right) and the majority of mass media which demonise claimers as scroungers and promote a distinction between the mass as 'strivers', seeking to take responsibility for their own lives, and a minority of outsiders who seek to live by different and exploitative rules. Baumberg, Bell and Gaffney (2012) analyse the way in which such statements reinforce stigma and build on pre-existing assumptions in the population, showing how attitudes are linked to media treatment of those on benefits.

Concern about the moral status of claimers predates recent political manoeuvres (for example, Golding and Middleton 1986, Dean and Taylor-Gooby 1992) and a full explanation must look to more structural changes. Longer run factors include processes which lead to greater social divisions and to the decline in cohesive social institutions and changes in assumptions about the values driving behaviour which moralise these divisions. The attitude data indicates long-run trends extending under very different governments. The interpretation that these are driven by changes in the circumstances of peoples' lives is

reinforced by analysis of the British Social Attitudes survey from a recent Demos/JRF/Ipsos-Mori study that indicates robust generational differences in support for spending on the poor (Ipsos-Mori 2013; see Figure 2). The implication is that an early experience of pre-war austerity fostered commitment to state welfare. Post-war affluence reduced the level of support somewhat. The uncertainty associated with the oil price hikes and recession in the 1970s weakened support further. The ascendancy of new right liberalism in the 1980s substantially reinforced suspicion of redistributive social provision.

***Figure 2 about here***

One of the major trends in our society is the onward march of market inequality noted earlier. This is linked to the increasing dominance of capital in relation to labour noted by Glynn (and 2006) and indicated by the fall in the share of national income received by workers from more than 70 per cent in the 1970s to about 60 per cent in the 2000s (Bailey et al. 2011). These processes coincide with the greater fragmentation of the workforce in the transition from manufacturing to service sector employment. Further factors are processes of regional and spatial development (Dorling and Ballas 2008) which increasingly segregate individuals by social status and income group. These changes help to build and are reinforced by social processes which undermine cohesive institutions such as trade unions and collective structures in the work place, common experiences of schooling and of community life, of leisure activity, in religion and in other areas of people's experience (Putnam 2000). Ethnic diversity provides another potential axis of separation. Greater flexibility in family life and geographical mobility and stronger generational differences reinforce these processes. In short social divisions grow stronger and cohesive institutions weaker.

These divisions increasingly become moralised as people experience their lives as determined by individual effort rather than as they outcome of collective forces. The 'tightening link' between education, skill and work achievement is an important factor since educational outcomes are widely believed to be primary the product of individual effort and ability rather than of opportunity support and context (Green 2013). The experience of job search and employment as primarily an individual process reinforces this. In this context the moralisation of social inequalities as attributable to individual effort, to doing what you ought to do and not doing what you shouldn't, rather than to social factors becomes normal. Failure not only leads to poverty and claiming, it is a matter of shame and stigma. This is the context which facilitates a politics of division and makes the task of designing an approach to welfare which confronts these divisions harder.

**The pro-welfare trilemma**

The problem faced by advocates of a generous welfare state may be thought of as a trilemma. The minimum conditions for a pro-welfare programme are that it should be inclusive (a programme that leaves out some groups on grounds not relevant to their level of welfare need is not fully a welfare programme), effective (it should actually be capable of meeting needs) and it should be electable (otherwise there is no point). Figure 3 summarises these issues in relation to short-term welfare where there are strong moral concerns about the desert of

claimers. One can imagine inclusive and effective policies (for example social dividend/citizen's wage) but such policies are unlikely to be attractive because they give money to people without test of desert. Inclusive electable policies would have to include strict rules about the application of inclusiveness to ensure that inclusion is interpreted to provide strong motives for valued behaviour and this would damage their effectiveness. Effective and electable policies (for example decent contributory benefits as currently under discussion on the centre-left) would not be inclusive.

***Figure 3 about here***

These constraints are much less damaging in the case of OSR services since these are highly popular. The resources necessary to sustain them can in principle be levied. There are a number of issues about the structure of and access to current provision which bear on effectiveness. A number of writers have pointed to social divisions in universal services (for example Titmuss 1955, Le Grand 2007). Addressing these issues may well require additional targeting on particular groups within common provision (for example, the Spearhead programme in health care or the Education Action Zone and Excellence in Cities initiatives in education in the early 2000s), curbs on the extent to which minorities can buy privilege through private provision and withdrawal of subsidies to such provision in pensions, schooling or health care, and programmes to expand the access of least well served groups to public provision. They can also be inclusive, and measures which address effectiveness may also reinforce inclusiveness.

**The double crisis: OSR services**

A substantial literature raises a different kind of problem in relation to OSR provision. A number of analyses point to pressures in this area in the longer-term future. Three factors are most commonly emphasized. First population ageing (the demographic 'time-bomb') will impose growing pressures on spending in these areas, particularly on health and social care and pensions. Secondly, the difficulty in achieving productivity gains in the service sector comparable to those in the manufacturing industry will result in a transfer of resources over time to the state sector – the 'Baumol wage effect'. Thirdly, rising public expectations will put continual pressures on state services.

It is of course hard to predict long-run future developments and these arguments may be more important in terms of their impact on current debates, as justification for immediate cut-backs on the grounds that these will prevent future problems, rather than as a guide to what will actually happen. Much depends on what happens in terms of economic growth and the UK's continuing attractiveness to migrants. For example, growth at a rate of two per cent during the next 50 years, rather lower than that achieved in the past half century, will produce a GDP about 2.7 times as large. Recent reports by OBR (2012) and the EC (2012) using slightly different methodologies, both produce central estimates of the projected extra demand at between four and five per cent of future GDP. These are substantial amounts, but may well be feasible in the context of greatly expanded real resources. Immigration is typically assumed to play a major role in reducing demographic imbalances in the UK.

There are perhaps three reasons why the long-run crisis in OSR services may be less pressing than is sometimes suggested:

- Analyses of productivity gains in the state human services indicate that health care and education have roughly kept pace with wage rises during the period since the early 1990s under different governments and a variety of market, managerial, target-centred, efficiency saving, training and other regimes designed to maintain pressure on costs (cf Hardie et al 2011, Baird et al 2010, Jurd 2011). This implies that wage drift may be contained provided pressure to improve cost-efficiency in the services is maintained.
- Secondly people are willing to pay for increases; the best evidence for this is that they have paid for increased spending at a higher rate than necessary in the past. Between 1979/80 and 2007/8, under governments of very different political ideology and a range of policy regimes, total spending on health care, education and personal care rose from £75.1bn. to £234.5bn. at 2008-9 prices, a growth rate of more than four per cent (Hills 2011, 597). Private spending additional to state spending in health care and education has increased even faster, from 8.4 to 13.7 per cent of total spending in these areas (Hills 2011 Table 1). (Pension spending grew at a much more rapid rate, but is heavily influenced by policies of privatisation and by state subsidy so is omitted here).
- Thirdly the UK is in a favourable position compared to many countries in the longer term. Projected spending pressures are rather lower than in any other North-West European country during the next decade (in fact so low, due to relatively low-cost provision and more favourable demography that they do not show on the chart. In the longer term they are lower than the EU average and than in most other comparable EU members (see Figure 4 calculated from EC 2012).

***Figure 4 about here***

Although the OSR services account for much more money, it is in relation to NSR services that current debates have been most intense. In the current context welfare state cuts have been most stringent in relation to these services and have been particularly heavy in relation to some of the most vulnerable groups. However the cuts have been combined with restructuring across almost all areas of state activity and particularly for OSR services and these have been justified in part by concerns about future pressures in these areas. We now turn to the short-term crisis and responses to it.

**An unusual crisis and a distinctive response**

The 2008-9 recession and subsequent stagnation and the policy response to it in the UK have been extensively discussed (see Yeates et al 2011 and Gough 2011 for an overview). Here

we comment on how unusual UK experience is in comparison with other countries and how distinctive the UK response is along a number of dimensions.

The distinctive feature of the UK's economic experience is the depth of the 2008-9 recession and the protracted nature of the period of stagnation that has followed it (Figure 5). While other major developed countries have returned to growth and passed their 2007 level of GDP by 2010-11, the UK remains some 2.6 per cent below that level at the time of writing and is unlikely to attain it before the 2015 election at the earliest. The Coalition government's response to economic crisis, heavily influenced by market liberal economic theories, was to cut state spending and reduce sharply the level of planned tax rises in order to reduce and eliminate the deficit and encourage a private sector-led return to growth. This strategy has not been successful and is now encountering criticism from previously supportive bodies such as IMF and OECD, although expressed in the cautious and neutral language such agencies employ (for example 'In the United Kingdom ... greater near-term flexibility in the path of fiscal adjustment should be considered in the light of lackluster private demand' IMF 2013, 49).

***Figure 5 about here***

The cuts are distinctive in that they detach UK public spending from its historic position at roughly the middle of the G7 group of large capitalist economies (France, Germany, Italy above, Canada, US and Japan below) and set it on a downward trajectory, after the 2007-9 burst of spending on benefits and jobs and the contraction of the GDP denominator. As argued elsewhere (Taylor-Gooby 2013 ch1) this trajectory will ultimately take the UK below public spending in traditional low spenders in the US although the refusal of the economy to grow means that the year at which UK spending as a proportion of GDP will fall below that in the US is now deferred from 2015 beyond 2017 (Figure 6).

Students of elections may find Figure 7 interesting from Treasury 2013, Table B.4. This shows a temporary rise in state spending of about £47bn in 2013-14, interrupting the downward trajectory that follows from the logic of the government's long-term strategy. £3 bn of this is accounted for by higher debt interest, but the larger components are an extra 12bn for locally financed current expenditure (made possible by business rate retention) and £31bn extra public sector investment – the infrastructure programme, money to support bank lending and money to support house purchase. At first sight the willingness of government to increase spending contradicts its political economic strategy. It of course has nothing to do with the election due in 2015.

***Figures 6 and 7 about here***

The detail of cuts is also distinctive: focused particularly on NSR services for women, children and those on low incomes. Full details are given in the Women's Budget Group analyses of public spending (WBG 2011a, b, 2012a, b) and by Yvette Cooper's House of Commons Library calculation of the incidence of personal tax and benefit reforms (Cooper 2012). The OSR area escapes relatively lightly, officially designated as protected but in practice subjected to very substantial capital and some current cutbacks, and the raising of the

pension age, while the uprating formula has become more generous. This resilience again points to the political strength of OSR services. Figure 8 covers tax and benefit changes (Joyce 2012) while Figure 9, from the 2013 Budget papers (HM Treasury 2013) also includes estimates of the impact of reforms in services in kind, assuming that the value of the service is equivalent to the cost of provision for each recipient. The impact on services in kind is revealed through the Departmental Spending Limits. The graphs show how the combined impact of tax and benefit cuts bears on better off and poorest groups. Figure 8 shows that it is greatest for households with children, and bears most discriminatingly on the poor among working age people without children. In addition cuts impact most strongly on the local government areas with the greatest of low incomes in the parts of the country where economic recovery is weakest and wage-decline greatest (HoC Library 2011).

***Figures 8 and 9 about here***

The cuts are also distinctive in the way in which they are ambitiously combined with major restructuring of almost all state services. The restructuring is an important feature of OSR as well as NSR reform and in this area is justified in terms of future rather than current cost savings and the need to achieve greater cost-efficiency in the long-term. It includes two main elements: the open government programme of extending principles of new public management through markets across every possible area of state activity and extending the role of private (and in some cases third sector) organisations in competition, with a strong emphasis on competition on price rather than quality (Cabinet Office 2011). Innovative payment by results schemes are also being introduced.

Further reforms to the benefits system involve simplification and greater transparency for state pensions and of short-term benefits brought together as universal credit, strengthening of work incentives and a greater role for the private sector and individual responsibility in the area of pension provision. While it is impossible to do justice to reforms of this magnitude without extended discussion, it may be noted that they involve substantial risks (see for example Taylor-Gooby 2013c), are not justified as we have seen in terms of longer-term spending pressures and so far as we can tell are likely to damage the quality of output when competition is on price rather than quality (Gaynor et al. 2010, Gaynor and Town 2012, 76-7).

One suggestion is that the longer term objective of the reforms, at least on the part of some in government, is to use restructuring to entrench the shift to a liberal form of state as a permanent feature of British life so that the move to a contract state spending is embedded. This may be reinforced by briefly observing the historical experience of cuts in the UK against the overall trajectory of public spending. The longer-term history of peacetime public spending in the UK as in most other countries is of a series of plateaux with the level of the plateau moved upwards (never downwards) by major shocks such as wars. Public spending in the UK hovered around ten per cent of GDP during the second half of the 19<sup>th</sup> century, rose to 20 per cent during the Boer war, fell back to 15 per cent, then peaked at 55 per cent during World War I, fell back to around 30 per cent, reached 70 per cent during World War II and has fluctuated around 40 per cent ever since. A number of governments from 1921 onwards

have implemented major cutbacks intended to address economic crises by reducing spending. In all cases the level of cuts achieved is substantially below that anticipated and in all cases spending had returned to the previous level within five years.

The key examples are the Geddes Axe of 1921-2, the 1931 Coalition government cuts, the Callaghan cut in the mid-1970s, Thatcher's rolling back of the state during the next decade, the Major cuts after the recession of the early 1990s and Brown's spending restrictions from 2007 onwards (Figure 10: for a detailed discussion see Taylor-Gooby 2012a). Whether the process of embedding will achieve a different outcome this time is unclear. Pressures to restore spending come from various directions: from local government, as in the 1920s, when it was less subject to central control than now, from concerns about civil disorder, strikes and a naval mutiny as in the 1930s, from the desire to appease voters, as in the restoration of the 1980s cuts before the 1992 election, and from the resistance of the state apparatus to contraction, as in the relatively modest 2007 Spending Review cut-backs (Dunsire and Hood 1989, Hood, Emerson and Dixon, 2010, Peacock and Wiseman 1967, IFS, 2011).

***Figure 10 about here***

There is also some indication that the detail as well as the volume of UK cuts is cross-nationally distinctive. In most cases reported in the 2011 OECD survey of 29 western countries, cuts run across all services and are not concentrated on NSR provisions (OECD 2011).

Embedding rests on reforms which weaken both the internal and external forces helping sustain state sector resilience. Budget maximising managers, professional associations and trade unions are all weakened by privatisation and fragmentation of services. Externally, cultural support for services and their capacity to operate as social institutions that reinforce the experience of cohesion are both damaged by the fragmentation and individualisation of provision in consumerist choice between a range of profit-oriented suppliers. This reinforces the individualising context of short-term benefit reform with its stress on curbing irresponsibility and on individual effort. Thus OSR reform may be seen as a long game and one that buttresses the immediate attack on stigmatised minority services.

So far the discussion has highlighted the points that:

- Social provision in the UK is heavily and increasingly dualised between OSR and NSR services
- For long-run structural reasons, reinforced by and feeding political and media communications, this division moralises NSR provision, especially those areas associated with low income and unemployment
- Current government policies follow this division to embed welfare state cutbacks permanently and achieve a shift to a more individualised, liberal climate of ideas
- This involves immediate cuts in the least popular short-term services, attacking primarily benefits and services that help women, children and the poor

- It also involves major restructuring of OSR services leading to extensive privatisation, so that the welfare state does not provide an institutional experience of collective responsibility.
- The fact that the areas which are most heavily under attack are highly unpopular makes it hard for pro-welfare actors to defend social provision.

We now consider various approaches to social provision and the kind of strategy that might be able to gain popular support.

### **New strategies for social welfare**

Resistance to privatisation and fragmentation of OSR services goes with the grain of public attitudes and from that point of view is straightforward. The agenda of individualisation and consumerism raises issues that are more challenging and may be difficult to advance without strengthening the framework of common services. The issues of trust and the capacity of OSR services to sustain it are of major importance and are considered elsewhere (see Taylor-Gooby 2009 for an extended discussion).

NSR provision especially that directed at the poor presents the most intractable issues. We have argued that the problems are not simply issues of communication and of constructing an attractive political programme but of finding a way to address changes that are highly salient in current politics, but are rooted in long-run structural features of society. We also suggest that any satisfactory programme must help to build collectivism rather than entrench the social divisions which hamper current attempts to develop state welfare.

There are three main directions in recent debates about the best way forward in welfare that address these issues: contribution, predistribution and investment. The latter two areas are often linked to ideas of prevention.

*Contribution* offers a means of harnessing deep-seated assumptions about entitlement and reciprocity to underpin the legitimacy of welfare. A reciprocal contribution justifies entitlement (Gintis et al, 2005, ch1). The approach can be developed more broadly or more narrowly. Horton and Gregory's account of a contribution-based welfare system (2009) encompasses a wide range of useful social activities as making a contribution to society. The outcome is that activities such as caring for children, sick or elderly people, voluntary work and training to ensure one could participate in paid work in the future are credited to one's contribution record bearing entitlement for benefits, as well as the cash contributions of traditional social insurance. Bell and Gaffney (2012) discuss and partially cost a more detailed programme resting on extensions to social insurance as it existed in the recent past. Frank Field argues for a more limited strictly work-based contribution system analogous to Bismarkian social insurance (Field 2013). James Purnell and more recently Graeme Cooke (2011) have developed a salary insurance loan scheme directed specifically at relatively well-paid workers and designed to top up benefits.

The logic of these schemes is that contribution is 'psychological gold-dust' (as Horton and Gregory put it), and insulates welfare from stigma. The downside is that they inevitably

distinguish contributors from non-contributors, even in the most extensive Fabian society schemes and focus public antipathy on groups which are likely to be particularly weak in labour market attachment and vulnerable.

***Predistributive*** programmes focus on the distribution of market incomes (Hacker 2011). For those at the bottom in low paid and often part-time work, incomes are simply insufficient to support a decent family life. One result is the massive expansion of means-tested income support programmes mainly covering the working poor, such as tax credit and housing and council tax benefits, from one to thirty per cent of the DWP or equivalent budget since the late 1970s (Browne and Hood 2012).

Predistribution would seek to improve wages by imposing (or in the case of some imaginative Labour party proposals) encouraging employers to pay at the Living Wage level, some 20 per cent above Minimum Wage. This involves issues of transition which would have to be staged and might differ in different industries (Pennycook 2012). The approach might also involve strengthening bargaining power through Works Councils, more representative remuneration committees and repeal of some anti-Trade Union laws (Coats 2012). More ambitious but vaguer discussion suggests controls on rent levels, utility prices and other costs that face many people and extending pre-distribution to cover social investment through training and education programmes, extending during working life, to ensure broader access to wage incomes (Carlin 2012, 2).

This approach is clearly interventionist. It sidesteps concern about the desert of claimers by focusing on market incomes and therefore on work. It would require support from a benefit system to cover those not in work.

***Social investment*** seeks to move away from concerns about benefit entitlement by stressing the value across society of state interventions. Ben-Galim and others have estimated the net value of a universal child care programme as up to some £5,000 a year for each mother able to move from full-time childcare to full-time work on average wages as a result (Ben-Galim 2012). The sum is based on tax income and benefits saved. Even without such a shift the cost of such a programme might be much less than headline figures and it would also contribute to gender equality. A corresponding scheme for elder care might release comparable amounts (Pickard et al 2012).

Social investment seeks to justify welfare spending on economic grounds. Many activities could be seen as investment including health care, decent housing to ensure mobility and prevent disease and transport. Most work is focused on education and training where the natural experiment of the 1973 raising of the school leaving age indicates a returns exceeding 10 per cent annually to the individuals in enhanced earning capacity and a likelihood of a net social gain (Dickson and Smith 2011). It grows increasingly difficult to justify interventions on investment grounds the further one moves from education, training and child/social care, because it is uncertain how the return attributable to an intervention, for example, in social housing or wage support can be identified.

The obvious problem with the various pro-welfare strategies is that each applies to particular groups. Even if contribution is stretched to include unwaged activities such as informal care, there are substantial numbers among the most vulnerable groups not in a position to contribute obviously to society. Similarly, pre-distribution applies to those in paid work. Social investment is rather narrower in its application. As the Department of Business, Innovation and Skills concludes in its analysis of education and training, investment in ‘individuals in the middle of the distribution rather than at the bottom may be more (cost) effective’ (Crawford et al. 2011, 5). In general returns on the poorest are low. All these approaches, which try to situate a more generous and redistributive welfare system within the confines of market-based values, risk reinstating social divisions.

### **Re-framing the welfare state**

It is easy to rediscover the truism that capitalist market societies tend to create inequalities and move to the position that the problems of poverty and inequality are intractable. Any defence of state welfare is trapped between the valorisation of work as the legitimate source of income for those of working age and acceptance of the authority of the market in determining access to and reward from work. The forces that defend labour interests tend to fragment, capital becomes more mobile and powerful and inequalities stretch out as a result of long-term secular shifts towards greater globalisation, more post-industrial social and economic structures and more financialised system of risk, (Pierson 2001; Hay and Wincott 2012, ch 1). All European countries have moved towards greater inequality and a falling wage share (Bailey et al 2011; ILO 2013, 19; Atkinson 2007). The UK is distinguished by the size of its financial sector, its lack of a strong collectivist tradition and the speed with which it has moved to a pattern of inequalities much closer to that of the US.

The welfare state faces further difficulties from population ageing, rising expectations and Baumol wage drift in the human services, affecting the most costly areas of provision. Since these areas are popular it is likely that resources will be found, imposing further pressures on spending on cheaper but more contested redistribution towards the poor.

Inequalities can be ameliorated within these confines through policies that improve access to work (most importantly in the recent past, child care, parental workplace rights and anti-discrimination legislation) and affect earnings (minimum wage, wage supplement and equality rulings). Such approaches tend to encounter the continuing pressures to hold down wages at the bottom, setting limits to a realistic minimum wage and making wage supplements unpopular. Some commentators argue that long-term investments in training will enable the labour market to move towards a higher-wage equilibrium by enhancing productivity, but this requires sustained investment in hard-to-reach groups. Hours spent in training have in fact declined in recent years in the UK: ‘including those not training, we find an overall reduction in average annual number of days per worker from 51.2 to 34.9 days, a fall of 32%’ between 2006 and 2012 (Green et al. 2012, 10).

These considerations suggest that any solution requires reframing of the way work, reward and state welfare are conceptualised. In relation to work and reward, many commentators

question how much inequality is acceptable. Whether policies that put a ceiling on top incomes or bonuses are enforceable and how far they are damaging to economic competitiveness is unclear, despite recent short-term attempts to do so. A greater degree of intervention is implied by the sociological tradition that may be traced from Marx's early romantic notion to labour as 'life's chief want' through Durkheim and more recently Sennett (2008) and Strangleman (2012). This argues that work should be primarily understood as creativity and the expression of craft skill associated with producing, meeting 'the desire to do a job well for its own sake' as Sennett put it (2008). If work is valued for its own sake rather than as a counter in a cash-nexus, the next questions are how far individuals should have a right to work and whether this is a right that the state should supply.

Welfare-to-work programmes insist that unemployed people take part usually in low-grade work as a condition of benefit on the assumption that this will help them enter full-time paid employment. The track-record of such schemes is disappointing (DWP 2012). The approach that sees work as creativity would argue for a much wider range of employment to be available. It might also raise issues about control over work and over the product of work, leading to arguments for greater industrial democracy through work councils and union rights. Such shifts are long-term but governments could make a start by extending such rights into the current Work Programme.

This raises issues about the role of government. The debate has been located between the poles of liberalism, in which government is limited to maintaining the conditions for successful operation of the free market, and Keynesian/Beveridge style intervention, in which government manipulates interest rates, pump primes investment during downturns and provides benefits for the casualties of the market. A different approach would extend responsibility to the quality of work rather than simply the employment rate and productivity, and would conceptualise this in terms of creative engagement and in the exercise of rights. Such a programme is substantially different from the current approach, which imposes yet harsher conditions on entitlement, and appears substantially endorsed by public opinion.

Some commentators argue that the structure of the benefit system influences popular attitudes, suggesting for example that Nordic countries are able to sustain more generous welfare rights than most other European countries, because less stringent entitlement conditions reinforce the idea that claimers are not seeking benefits in preference to paid work (Rothstein 2009, Larsen 2013 10-22). This suggests that gradual moves towards a different approach to welfare might be cumulative and might develop respect for the intrinsic value of work among claimers, and a corresponding respect for claimers as workers. The first steps might include stronger rights to participation in works councils for all workers, (currently the UK is implementing the EC directive requiring European Works Councils in larger firms operating in two or more EU countries) and to extend these to unemployed people provided with jobs by the government.

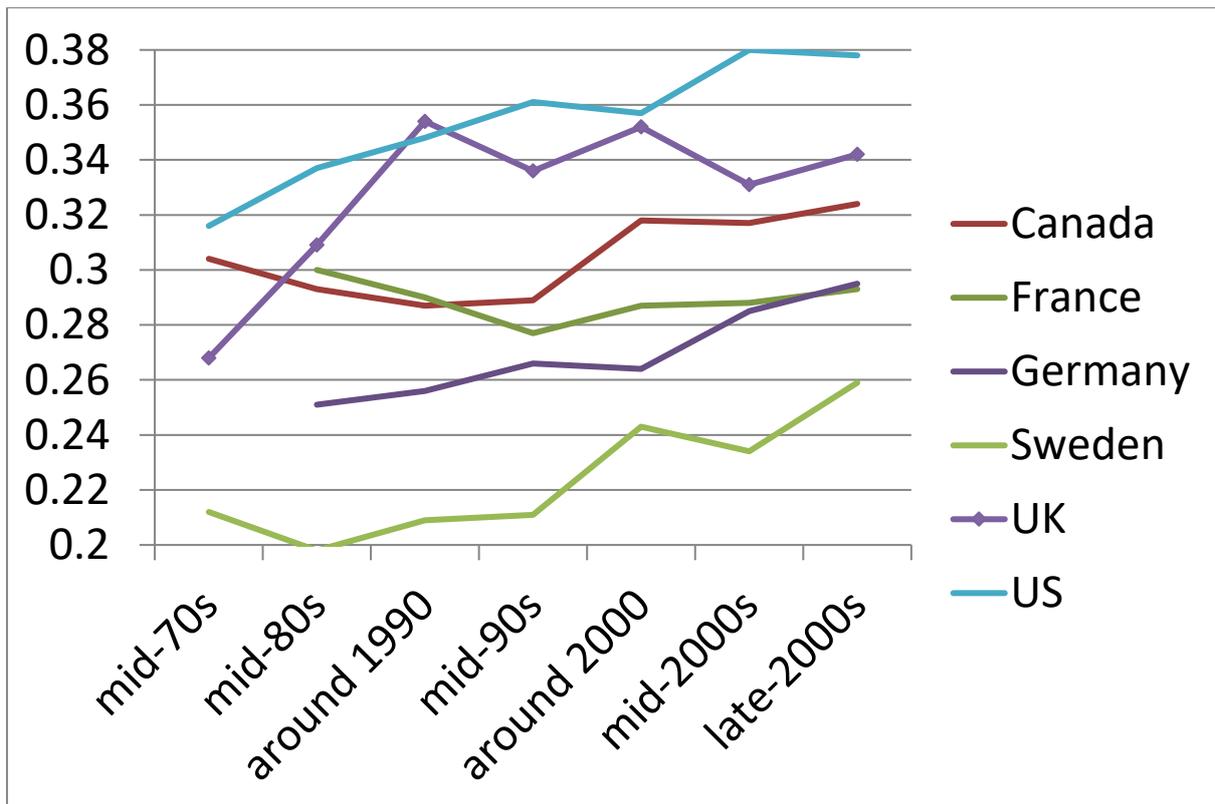
## **Conclusion**

This paper has pointed to twin pressures on the UK welfare state arising from the likely expansion of the ‘old social risks’, associated primarily with ageing, and the emergence of ‘new social risks’ as women and mothers become full members of the labour market and as work, for many, becomes less secure. It argues that old social risks trump new social risks, and the outcome is cumulating pressures on incomes at the bottom in a more unequal world. A number of policies intended to tackle the issues are reviewed. It is difficult to see how the core issue, that people of working age seeking benefits are not valued, can be addressed without a reframing of approaches to work, welfare and citizenship rights. Such a shift is not practicable in the short term. Government however could pursue changes which might lead to a greater valuing of the contribution of those at the bottom, by establishing a right to work, by providing meaningful employment for them and by engaging workers as industrial citizens in a dialogue with capital through greater industrial democracy.

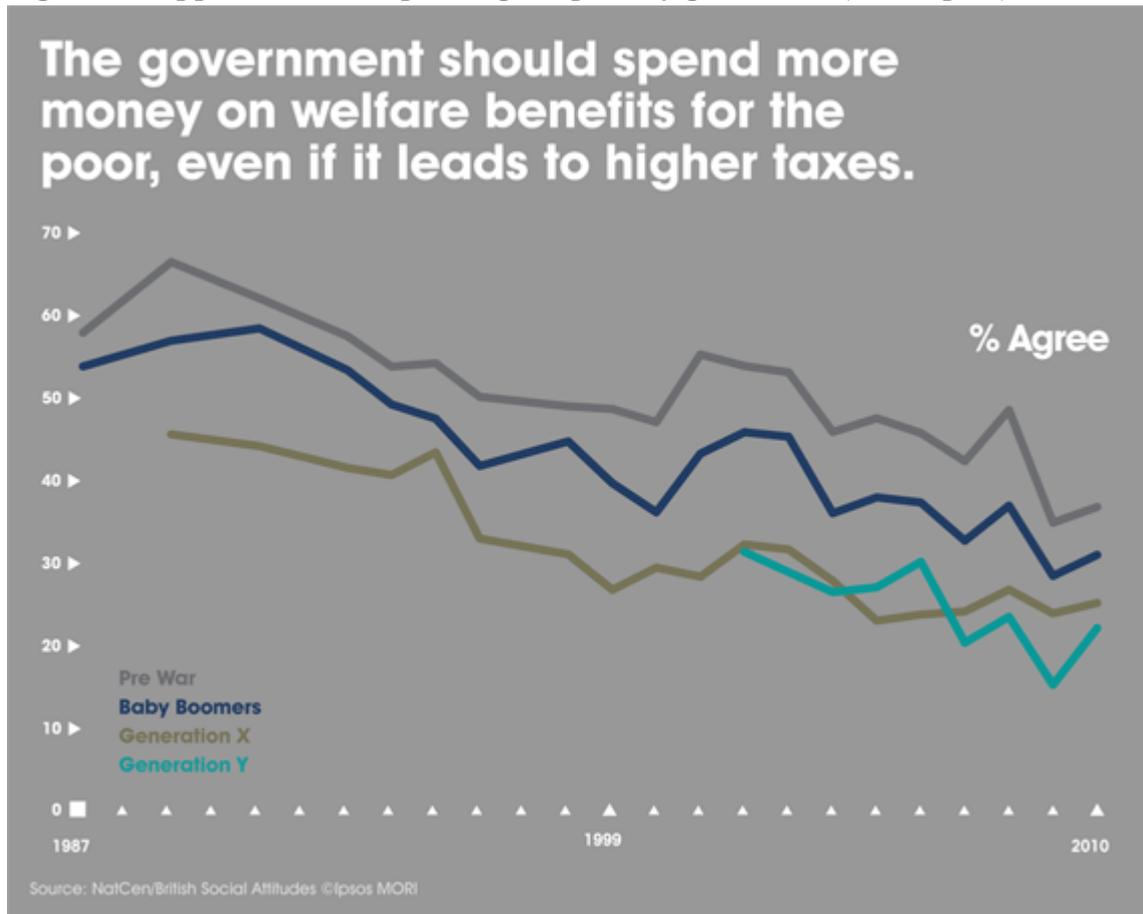
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**Figure 1: Inequality (Gini coefficients) after Tax and Benefits (OECD)**

**Figure 2: Support for more spending the poor by generation (BSA/ Ipsos)**

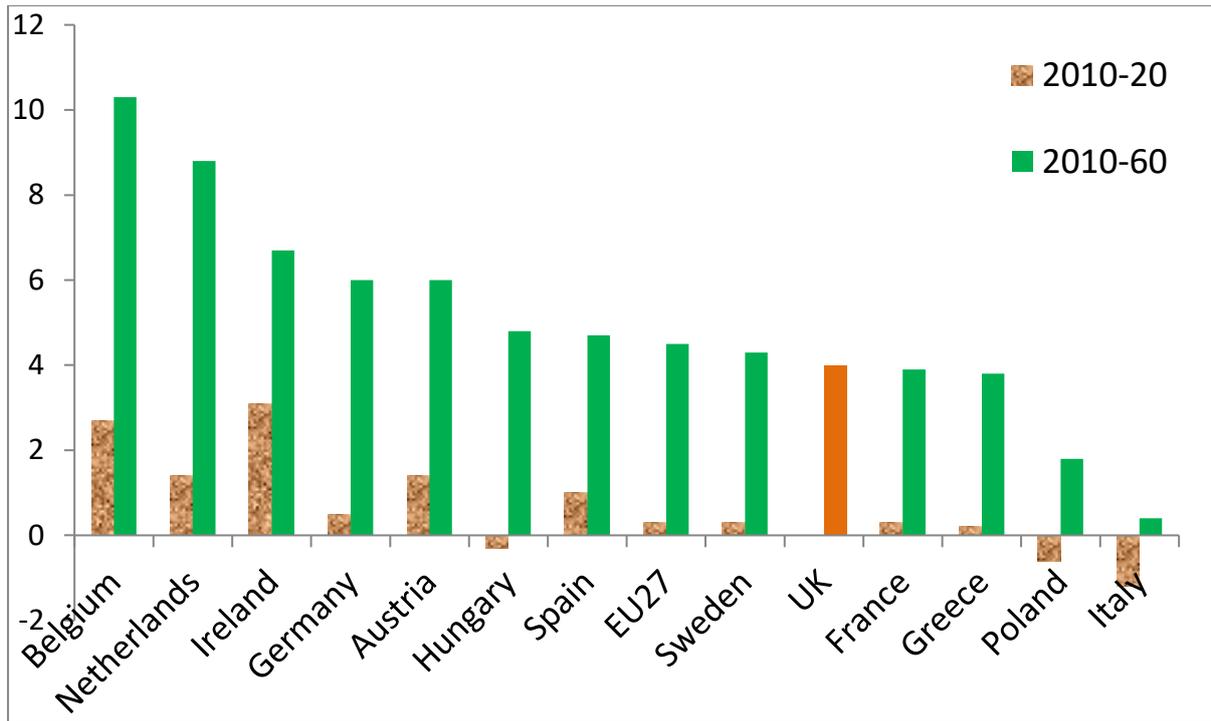


Pre-war: born before 1944  
 Baby boomer: born 1945-66  
 Generation X: 1966-79  
 Generation Y: 1980-92

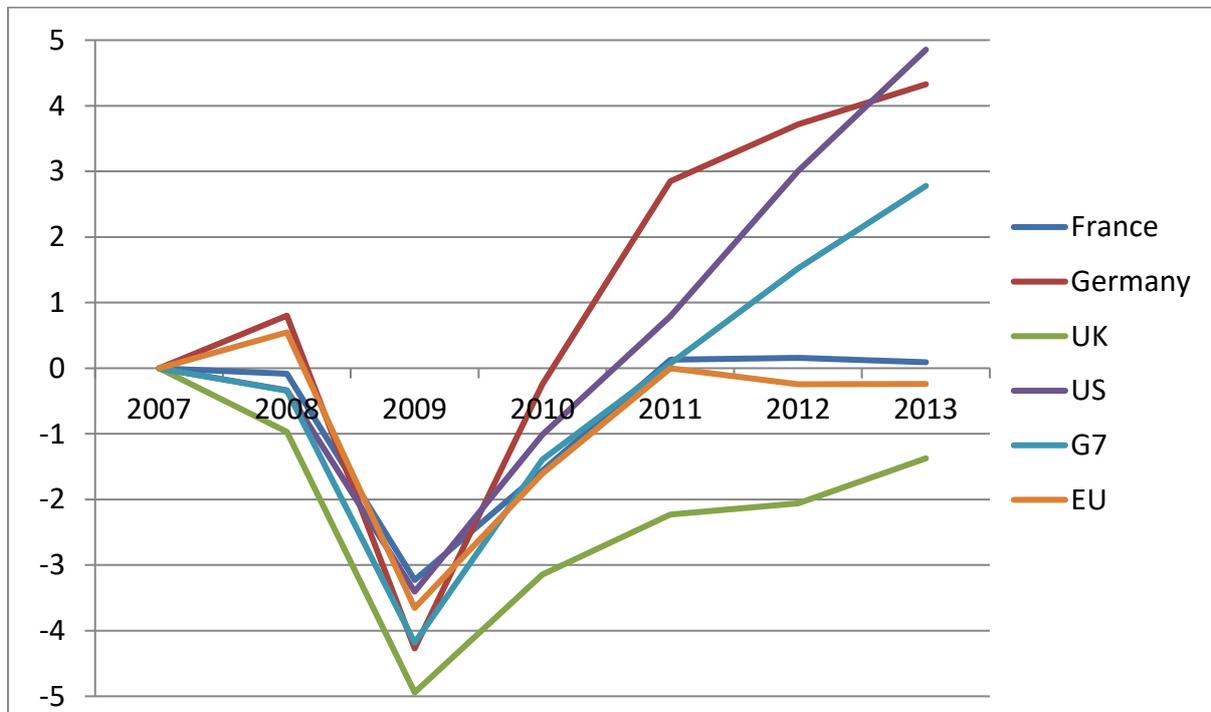
**Figure 3: Three (incompatible) conditions for welfare**

Inclusive	Effective	Electable	
+	+	-	Stigma/ Cost
+	-	+	Moral curbs
-	+	+	Labourism

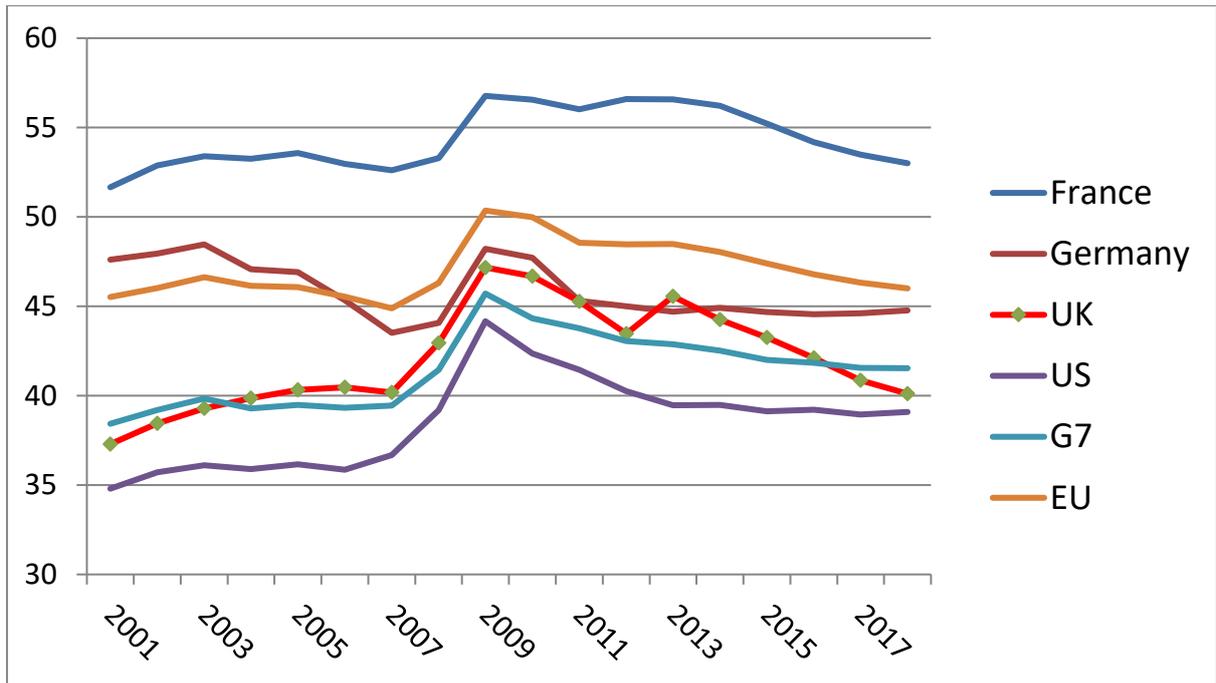
**Figure 4: Projected age-related spend changes 2010-20 + 2010-60 (%GDP, EC 2012)**



**Figure 5: Distinctive stagnation: GDP change % of 2007 peak (IMF)**

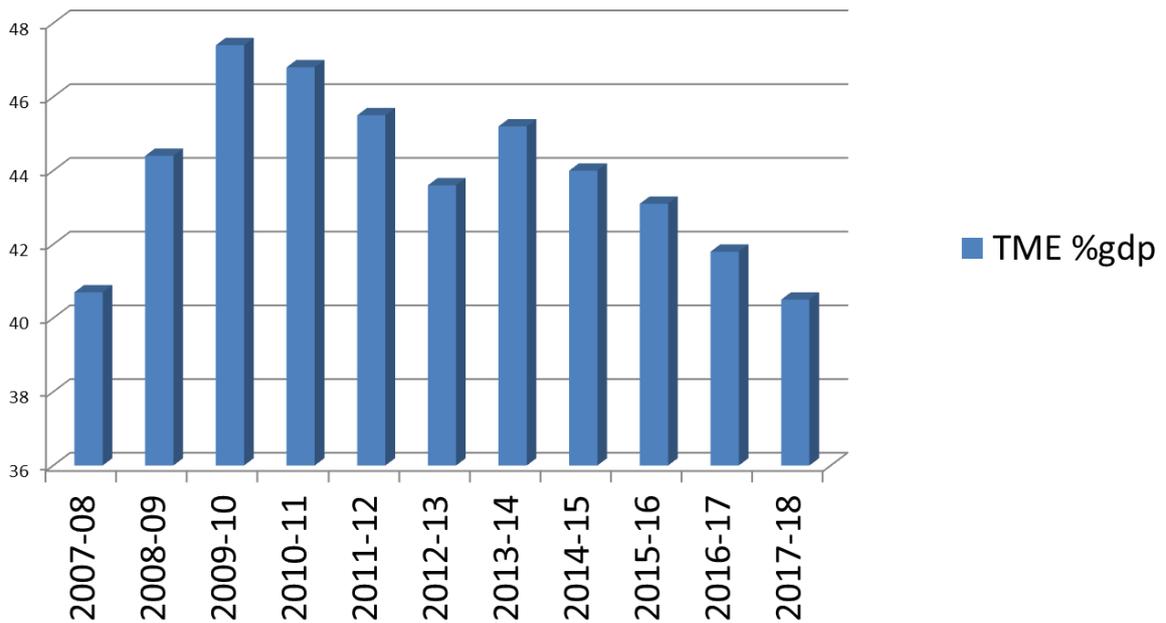


**Figure 6: A distinctive spending response: public spending % GDP (IMF)**

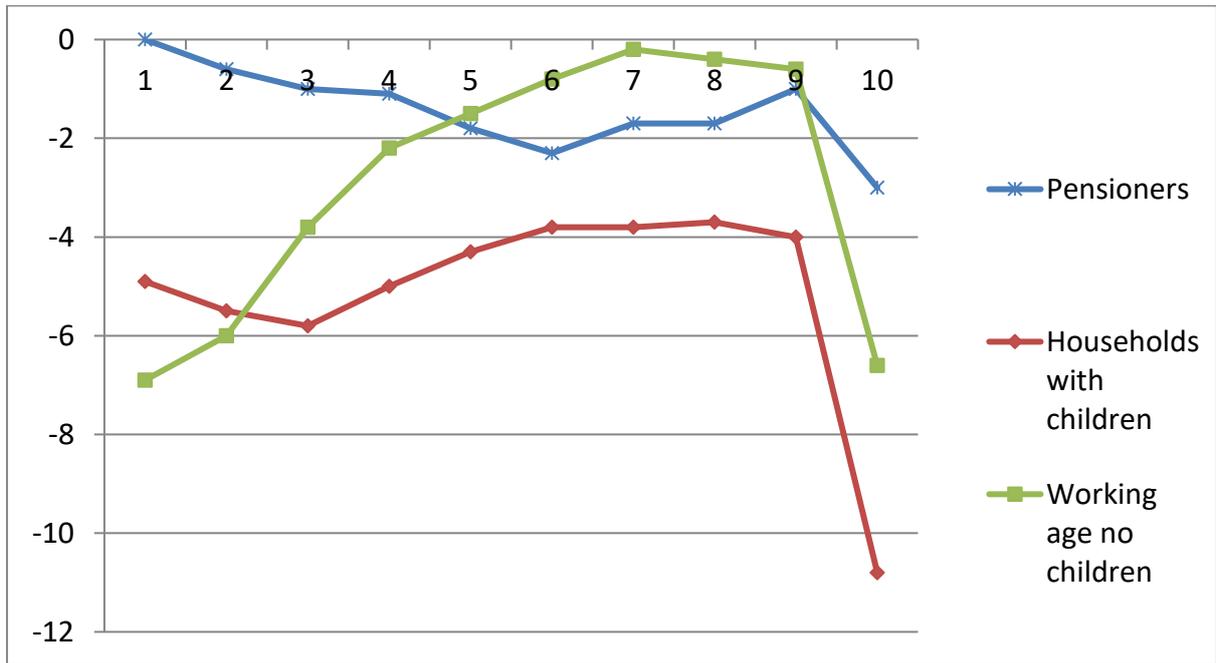


**Figure 7: The trajectory of public spending, Budget 2013, Table B.4**

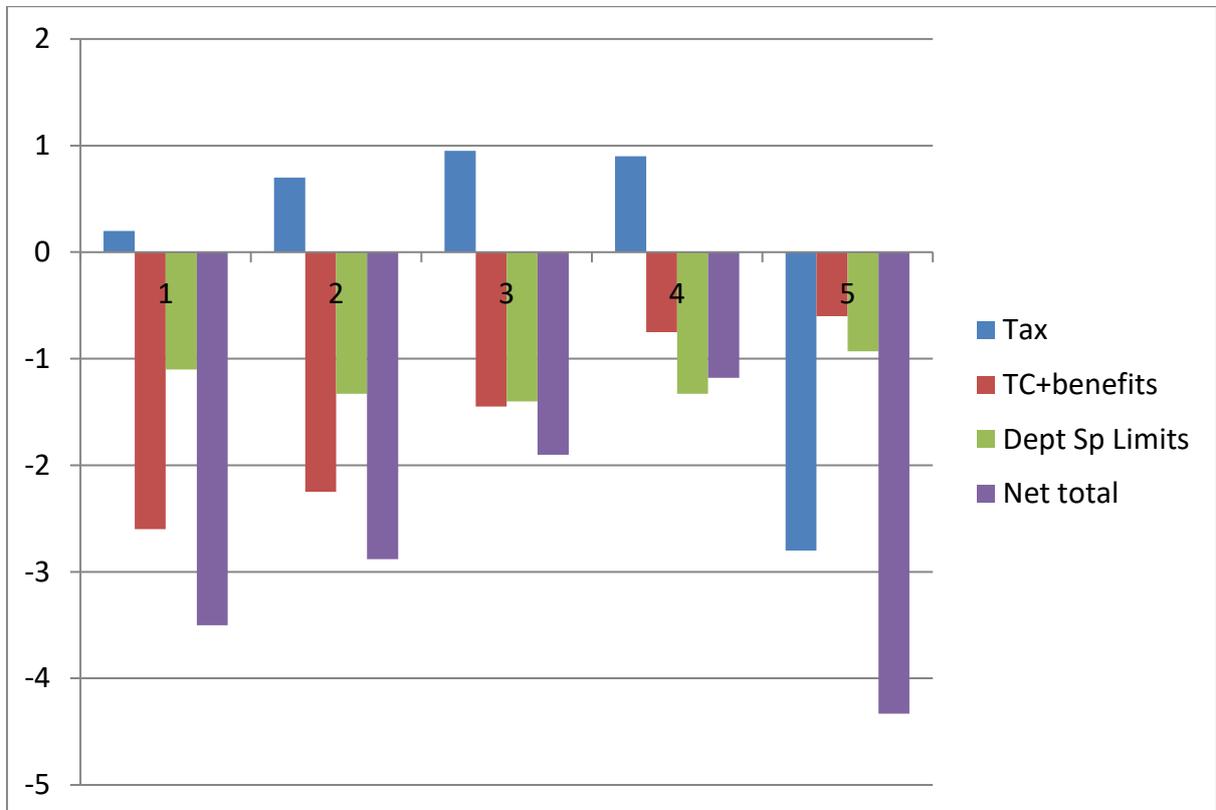
**NB Impact of election: TME %gdp (HMT 2013)**



**Figure 8: Distinctive incidence: impact of tax/benefit cuts on incomes (2010-15 by decile %; IFS)**



**Figure 9: Impact of 2010-11 to 2014-15 changes as % 2010 household income, quintiles (HMT Budget 2013 T2C)**



**Figure 10: Major attempts to cut state spending and their outcomes**

	<b>Plans %GDP</b>	<b>Achieved (%GDP)</b>	<b>Outcome</b>	<b>Comment</b>
<b>1921-2 Geddes Axe</b>	8%	5% by 1925	Local govt. spending up 4.6% by '29	Central cuts outweighed by 1930
<b>1931 Nat. Govt.</b>	4%	2.5% by 1933	Made up by 1936	Cost pressures centrally and locally
<b>1975 IMF Loan</b>	5%	1.5% by '79, local govt	Made up: rises during 1983 recession	Mainly loc. govt.
<b>1980-90 Thatcher</b>	'rolling back the state' 8%	5.4% by 1990	3% made up by 1993	Election spending/ 1991 crisis
<b>1993-9 Major/ Blair</b>	3.8%	4% by 1997	Further 1% in NL 1st 2 yrs	Made up under NL by 2005
<b>2007-10 Brown</b>	1.4% (efficiency savings)	0.4% by 2009	67% these service cuts not efficiency savings	Stimulus package; coalition reforms