

# Is the uk welfare state in crisis?



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Since the British Welfare state materialized in 1945, the debate on how to reform it has never ceased. In the first 25 years after it was introduced, the debate concerned how to increase its scope and abolish means-tested benefits. Then, after the economic crisis in the 1970s, the aim was on how to trim it back. Now, the future of the welfare state itself is the subject of fierce debate.

In this essay I will begin with a history of the UK Welfare State and how it came about, before analysing a few of the key elements of the welfare state which will help me decide whether the welfare state is in crisis. I will then finish with a conclusion with my thoughts and views, verbalised.

The narrow definition of the welfare state comprises two types of government spending; (1) cash benefits to households such as transfers and income insurance and (2) subsidies or direct government provision of human services such as pre-schooling, education, child care, health care and old age care. The broader definition of welfare state includes housing policies, price regulation, job security legislation and environmental policies<sup>1</sup>. The purpose of the welfare state is to create economic equality or to assure equitable standards of living for all<sup>2</sup>, to protect British people from unemployment<sup>3</sup>, and to encourage the provision of the social services on the same basis as the public services such as roads and libraries<sup>4</sup>. However, there are differing opinions as to whether the objective of the welfare state is a simple one, as John G. Francis states the purpose is to 'allocate public funds in order to secure certain minimum life support services for those most in need' and to "construct a comprehensive set of social and economic policies designed to realize a certain vision of society".<sup>5</sup> Morris Janowitz, on the other hand,

presents a more minimal portrait of the welfare state: “ the welfare state rests on the political assumption that the well-being of its citizens is enhanced not only by allocations derived from their occupations and the marketplace but also grants regulated by the central government.” He explains that in addition to the government provisions of benefits for its citizens, there are two further elements in his conception of a welfare state: (1) “ parliamentary regime determination of resource allocation” and (2) “ the recognition of the state’s right to intervene in order to create the conditions under which citizens can pursue their goals.”

The welfare state was developed primarily by William Beveridge. In 1941, the British government commissioned a report into the ways Britain should be rebuilt after the Second World War, mainly how improvements could be made to the system of providing sickness and unemployment insurance. Beveridge was the obvious candidate to compile the blueprints for the welfare state due to his book on ‘ Unemployment: A Problem of Industry’ in 1909, in which he argued that full employment could be obtained if industry was not constrained by over regulation. <sup>7</sup> In 1942 as the war reached its height, he produced his report ‘ The Report on Social Insurance’ and proposed that all people of working age should pay a weekly national insurance contribution where benefits would be paid to the sick, unemployed and retired and thus provide a minimum standard of living for all citizens. <sup>8</sup> He also identified five ‘ giant evils’ that plagued society and could be tackled:

Want (today we call it poverty) by establishing a comprehensive social security system

Disease by establishing a new health service

Idleness by the state aiming for full employment

Ignorance by reforming the education system

Squalor by a new house building and slum clearance programme<sup>9</sup>

The first of Beveridge's proposals came into effect before WW2 ended. In 1944 the Ministry of National Insurance was set up before the Family Allowances Act was passed a year later. 11 Reactions to the report were positive:

' It gave me a feeling there was something to work for and fight for after all and that our efforts might be rewarded by some real social improvement, giving means to the phrase " winning the peace". (Royal Artillery, male, 29)

' It's the goods! All the yearnings, hopes, dreams and theories of socialists for the past half century have been crystallized into a practical economic formula. Equity for the " lowest common denominator" I was staggered by its comprehension'. (Insurance clerk, male, 39, Newport)

' I am aware of a new feeling of confidence in myself as a member of a democratic society when I see those social reforms which I have considered necessary for such long time actually taking shape'. (Accountant, male, 40, Prestwick) 12

Such positive reaction, though not all positive, led to a landslide victory for Clement Attlee and his Labour Party and he decided to seize upon Beveridge's proposals as a basis for radical action, and proceeded to

implement many social policies, which became known as the Welfare State. Attlee's hope was to have Beveridge's plan in force by 1948, but in a time when Britain was suffering from the severe conditions of post-war Britain, it did not have the money to pay flat rate benefits that would keep people out of poverty. 13 The National Assistance act which was passed in 1948 played a bigger role in improving poverty than Beveridge had planned and because the idea of basing entitlement on contributions through national insurance was flawed, it meant many people, in particular women, were excluded from the system. Another act which passed was the National Health Service Act 1946, which came into effect on 5th of July 1948 and created the National Health Service in England and Wales. 14 After the landslide victory for Labour in 1945, Aneurin Bevan was appointed minister of health, responsible for establishing the National Health Service. Since there was already a free, compulsory state education service, the people of Britain now probably had the most comprehensive Welfare State system in the world. 15

The question of whether the UK welfare is in crisis is one that has been asked before. The welfare state in the 1970s was claimed to be in crisis with oil price shocks and increasing food prices adding pressure on the economy and leading to a rise in unemployment. Though the causes – sharp reductions in output by OPEC and exchange rate fluctuations – were said to be 'external to the welfare state' 16, there still continues to be a debate over not just whether the welfare state is in crisis but also if it is sustainable. The first area I will tackle is state benefits. As of September 2009, there were 2.7 million people claiming incapacity benefits in the UK<sup>17</sup> and with reports stating that 'less than a third of' these 'claimants are legitimate'<sup>18</sup>, it begs the question

that are the standards of the UK health service so inadequate that more people than ever are ‘incapacitated’? The simple answer is the majority of these people are simply work-shy<sup>19</sup>. Michael Portillo of the Sunday Times pointed out the intentions of the Welfare State was to prevent this abuse of the system by the work shy<sup>20</sup>:

The state “should not stifle incentive, opportunity, responsibility”, wrote Sir William Beveridge in the 1942 report that inspired the post-war welfare state. “In establishing a national minimum it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.

These work shy people are forcing the tax burden on the hard working families and “as a result, taxpayers have spent £346bn on payments to those out work since Tony Blair entered Downing Street”. He goes on to say “It might have been possible for the state to fine tune benefits when every claimant was known to the local poor law guardians. It is much more difficult today in systems that are nationalised and standardised”, before concluding, “we ought to assume that fit young people are not entitled to anything. If a few young men from sink estates are now heroes in Afghanistan, why should we presume that all the others are capable of nothing useful at all?” Some believe such a centrally planned benefits system is bound to fail because it is not feasible for a planning body to know all the circumstances and facts to be able to assess who is in an incapacitated state<sup>21</sup>.

Another area of benefits that has come under scrutiny is child benefits. This has long been considered untouchable as it has high take-up rates and

passionate support across the political sector. However, new goals such as reducing child poverty whilst at the same time cutting spending, it is time the state challenged its status as the sacred cow of the welfare state<sup>22</sup>. Between 1999 and 2004, 600, 000 children managed to escape poverty as result of their guardians/parents finding work. However, this trend reversed when the recession hit when between 2008 and 2009, 160, 000 more children were in workless households and, inevitably, in poverty. Kate Stanley of the Institute for Public Policy Research makes the point that the welfare state “ must become much more efficient in reaching poor children and child benefit is one of government’s primary tools in ending poverty.” <sup>23</sup> She goes onto explain that “ we need to bite the bullet and make it progressively universal so that everyone gets something but poorer families get most”, adding further, “ one option would be to tax child benefit and use the tax to increase the rate of benefit paid to second and subsequent children”. As with any policy change, putting forward such change is unquestionably controversial. However, it is not difficult to come to the conclusion that yes, while there is a need for a benefit reform in the UK, does it necessarily mean the welfare state as a whole is in crisis? On this evidence, I can conclude with a wholehearted, no.

British schools have somewhat of a mixed reputation. Quality of state education is known to vary whilst universities and other higher education institutions garner an excellent reputation internationally and take in thousands of foreign students. The state education system in the UK has been changing at a hectic pace in recent decades which has led to a generation of curriculum chaos and crisis caused by a lack of funding,

crumbling infrastructure and shortages of books and other equipment<sup>24</sup>. Many schools have been forced to cut their teaching budgets at a time when they should have been increasing them, and some have had insufficient funds to buy books for the revised national curriculum and other essentials. This is only going to get worse with the recent spending review by The Coalition hinting there may be ‘savage cuts...in the education budget’<sup>25</sup>. The budget for the Department of Education last year was £66.7bn, rising to an estimated £68.7bn this year. While Chancellor George Osborne has pledged to protect Sure Start, the government scheme where children’s centres have been built by Labour to provide nursery care, it means other areas such as school buildings and support services are likely to be even harder hit. And it only gets worse: the Audit Commission claims that ‘millions of pounds are still being misspent’. A report last year found ‘schools were sitting on excessive cash reserves of almost £2bn and £400m a year could be saved if schools bought desks, equipment and services more sensibly’<sup>26</sup>. However, it is easy to criticise and easy to forget the positives. The last government claimed the increase in funding produced key successes, including rises in primary and secondary school exam results, a drop in the number of failing schools, an increase in the number of children staying on in education beyond the leaving age and improvements to early years care with the establishment of a network of Sure Start children’s centres. However, this all happened during the last government. With ever more bleak and worrying headlines such as ‘Students to face unlimited fees’, ‘Nearly one in five children aged 16-19 is ‘functionally illiterate’ and ‘Schools prepare to cut frontline services’, it is not surprising why many are saying the education system in the UK is in trouble.



A recent programme on BBC illustrated how Toby Young struggled to set up a new school within the state system. The pressing concern was the campaign to stop these schools was endorsed by the National Union of Teachers. The reason why Mr Young was trying to set up these schools was because they were wanted by parents not happy with the existing state schools. There is mass evidence to support their views with reports year on year showing dwindling numbers on the number of pupils that achieve 5 A-C GCSEs. It is about time students are able to realise their full potential instead of facing silly obstacles. It is no wonder private schools attain far higher grades and pass rates than public schools as they receive much more attention in their small class setting. I see no reason at this stage to go against what many people are saying: the UK welfare state is very much in crisis.

The last area I cover is pensions. In the UK there are three major pension routes; (1) occupational final salary pension plans from your employer: (2) the state pension where you may have entitlement to a top-up plan as well as the basic state pension. Those who are not well off may have their retirement earnings boosted by a pension credit: and (3) the money purchase pension scheme either from your employer or from other earnings such as self-employment (these are called personal pensions)<sup>27</sup>. There are three problems in pension reforms in the UK. The first being whether to continue with the PAYG system or switch to a saving system, though this fight seems to be over as many academics and politicians accept the need to move to a saving or funded system. The second problem is whether, if you opt for the saving system, to make savings voluntary or compulsory, and if

compulsory whether or not to give savers a choice of pension providers. The move to a saving or funded system has a great economic advantage in that it builds compound interest into the entitlement. In other words, you invest in the economy and you get the benefit when you retire. Many would like to return to the ideal situation of not wanting to be a burden on your family and the next generation, but as that family obligation ‘ myth’ still continues, it is too high a price to pay for the economic costs of the current system<sup>29</sup>. The question that leads from this is whether to make saving voluntary or compulsory. I would suggest setting a minimum for compulsory savings and let people saving voluntarily for larger pensions. Indeed the government introduced voluntary pension saving in the new world of pensions, but being auto-enrolled into a pension scheme will be compulsory.

The high level of state pension from the age of 65 has been found to cost too much and has steadily declined in relation to average incomes and been replaced by what many call the disastrous means-tested pension credit. With the pension age to rise to 68, this will be a long overdue acceptance of vastly increased longevity<sup>30</sup>. This demonstrates the slow pace to which the UK responds to changes in reality. The Beveridge report laid the foundations of the post-war welfare state, declaring every citizen who paid his or her contributions should be able to claim “ an adequate pension worth more than any means tested benefit” <sup>31</sup>. As Philip Johnston of the Telegraph puts it, ‘ after 100 years in which living standards have quadrupled, a pension designed to prevent the poorest in society enduring a penurious old age has failed in its purpose’. James Bartholomew, in his book ‘ The Welfare State

We're In', posed the question if we would have been better off without the state pension. He answered,

“ It seems likely that if the state pension had not been introduced, British people would have saved a great deal more and, overall, would probably now be wealthier in their old age. The late 19th century trend for people to become less benefit dependent would have continued, and it would be normal to have very substantial savings. Old people would have more independence and dignity in retirement”.

In conclusion, I agree with the claim that the UK welfare state is in crisis. During the research for this essay, I found almost no evidence to say otherwise, which was a surprise. I have discovered the welfare state has been a failure and I believe the state should stop funding anything beyond a minimum safety net. As stated before, money is being wasted due to recklessness in its spending and rather than divert (even more) resources from social security to health and education, as the government plans, it should slash taxes and let people pay for their own welfare services. The demand for these two categories rises faster than national income and public spending is unlikely to be able to keep up, thus bringing us back to the perpetual perception that they are “ underfunded”. I read an interesting post made by a member of the public on an online forum that made the following comment:

Whenever all of part of the NHS runs out of money, wards are closed or operations are delayed or a cost saving measure is taken, but never are salaries cut back. 154

This illustrates how the government have a strong inclination to protect their staff first, instead of their customers who receive the service. But of course the nurses and doctors and administrators feel like they are under paid and endure difficult conditions, and this is often too. It bottles down to the point that their pay and their pensions are not damaged which otherwise would be if they were not working for the government.

The future on the welfare state itself is uncertain at this point in time. The right are in agreement that unwarranted spending on the welfare state has weakened economic growth and reduced incentives, while the left feel the traditional welfare state has not paid enough attention to significant groups like women and ethnic minorities. Policy reforms have strengthened not just in the UK but also in the continental Europe and the US. The government often deliberates and avoids making tough decisions, such as introducing a compulsory savings scheme or increasing state pensions, which have been needed to deal with the crisis. As Steve Schifferes of the BBC puts it, “though the government wants to seek a political consensus before proceeding with radical reform, time may be running out!”