

# **Towards a New Welfare State or Reverting to Type? Some Major Trends in British Social Policy since the Early 1980s**

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## INTRODUCTION

In the early 1980s the “welfare state crisis” was a point of reference common to many European countries with advanced public social policy arrangements. In most of them the scope of expansion of social expenditure had already been reigned in after the first oil price shock in the mid-1970s. But it was the impact of the second oil price crisis, with low or negative economic growth rates and another steep rise in unemployment in the early 1980s which provided considerable ammunition for critics of the welfare state in many European countries and which triggered off the crisis debate. The latter was particularly pronounced in countries with centre-right and neo-liberal governments at the time and probably most outspoken in the UK. From the start of her first period in office Margaret Thatcher was explicit about her ambition to “roll back the frontiers of the state” and to give much more room for individual and private forms of social protection. In her first election manifesto in 1979 the welfare state was singled out as part of the problem rather than part of the solution to economic and social difficulties which Britain faced at the time. In short, it seems entirely appropriate to take the early 1980s as a starting point and to focus on the UK as the country in which there was arguably more pressure on traditional social policy structures than anywhere else in Europe.

There has been much debate and analysis into whether the three Thatcher governments (until 1992), and John Major as her successor until 1997, actually achieved their retrenchment objectives. In a similar vein, there has been much controversial assessment of subsequent policy reforms implemented by the Labour government since 1997. To what extent do the latter represent some form of coherent “third way” approach to the welfare state and to what degree has this approach really influenced policy making?<sup>1</sup> This article does not aim to provide a systematic review of 20 years of social policy development in the UK. Even if only major programmes such as health



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care, social security, housing, social services and education were to be reviewed, this would require substantially more scope than is available in this article.<sup>2</sup> The somewhat less ambitious aim here is to trace some major social policy trends in order to demonstrate that the overall welfare state profile and orientation has indeed changed over the past 20 years or so. The claim is that, taken as a whole, reforms resulted in a new trajectory if not of the British welfare state as such, but of some of its major components and of social security in particular. While other policy fields have also been subjected to numerous reforms, the overall direction has largely remained unaltered. As Section 2 shows, this applies to health care for example, and to a lesser extent also to housing and social services, although internal delivery and organisational structures have changed. Yet it is social security which is not only by far the largest part of social spending but has been the policy field which has undergone a more fundamental transition over the past 20 years or so, partly reverting to principles which were prevalent before the 1970s but to some extent charting new waters.

Today, the two overarching aims in social security are cost containment and the pursuit of one objective only: the amelioration of poverty. Unlike health or education, public spending on social security has become, in the eyes of the government, a sign of failure. Of course, in contrast to aims prominent in other European countries such as reducing income inequality or making social policy an integral part of the class compromise, the focus on poverty was already a characteristic element within the immediate post-war British welfare state. However, in the 1960s and 1970s other objectives, such as income maintenance and redistribution, gained ground, only to be gradually phased out. In other words, whereas Labour governments in the 1960s and 1970s attempted to provide more than a residual last-resort safety net, and even introduced some Bismarckian ideas of income maintenance (i.e. earnings-related benefits), the current administration has completely abandoned any of these aims. Based on a new welfare consensus which emerged in the 1990s, the two principal objectives for the British public social security system have become to help people into paid employment and, for pensioners and those who cannot be integrated into the labour market, to avoid poverty.<sup>3</sup>

This reversal to an almost entirely needs-based approach has evolved gradually alongside a changing socio-economic context over the past 20 years, which is outlined in Section 1. The subsequent section sketches out main trends in housing policy, personal social services and health care. The argument here is that the former two programmes have undergone more substantial changes than the latter. However, as will be argued in Section 3, it is the policy field of social security which has witnessed the most programmatic form of policy re-orientation within the modern British welfare state.

## 1. CHANGES IN THE SOCIETAL LANDSCAPE WITHIN THE BRITISH WELFARE STATE

In the 1980s the characterisation of the UK as the “sick man of Europe” was in many respects justified. Economic growth rates were very low in the first half of the decade, unemployment and long-term unemployment increased sharply to levels which were ranked amongst the highest in the EU. Mass redundancies, strikes and major industrial conflicts were typical aspects of economic life. If anything, the government’s

tough neo-liberal and monetarist course contributed to this adverse macro-economic climate. However, despite the government's anti-welfare agenda and the introduction of cut-backs, social spending increased rather than diminished, largely as a result of the rise in the number of unemployed benefit claimants and other workless people in need of support (such as lone parents). An economic recovery in the second half of the 1980s reduced unemployment somewhat, but inflation also rose strongly. As a consequence, deflationary policies contributed to a further major economic recession in the early 1990s.

Typical for Britain's macro-economic trajectory since the 1950s, this "boom and bust cycle" seems to have been broken in 1993 when economic growth returned and unemployment started to decline, this time without triggering inflation. Labour market improvement continued for the rest of the decade with unemployment reaching a rate well below 5% by the end of 2001. Overall labour force participation and employment rates also rose, with the rate of women in the labour market reaching almost Scandinavian levels.

However, while male unemployment also decreased after 1993, male inactivity continued to rise in the second half of the decade. This had to do with the sharp decline in the number of predominantly male jobs in manufacturing. While this is a common trend across countries, the political enforcement of de-industrialisation was particularly marked in the UK.<sup>4</sup> By the end of the 1990s about 28% of men over 50 years of age were economically inactive, compared with 7% in the mid-1970s.<sup>5</sup> Inactivity of younger age groups also rose dramatically, from 1 to 8% during the same period (excluding students). Several other labour market problems have remained, including a stark geographical concentration of worklessness, households with no adult in paid work, a high level of lone parents dependent on benefit receipt and related problems of poverty and social exclusion.

The employment gap between the South and the North of the country has actually narrowed since the 1970s,<sup>6</sup> but geographical differences of non-employment within regions became even more pronounced. There is a clear positive association between regional unemployment and inactivity rates with male inactivity occurring predominantly in areas of high male unemployment.<sup>7</sup> The reverse also holds true. Areas with the best employment performance have also witnessed the best improvements in inactivity rates.

Many European countries have witnessed a polarisation between work-rich two-earner and workless (no earner) households since the 1980s.<sup>8</sup> But the increase was very steep in the UK. The share of households with no one in work climbed from below 5% in 1979 to over 10% by 1991, and even after the improvement of the labour market continued to rise to over 17% by the late 1990s.<sup>9</sup> In other words, the employment growth since 1993 largely bypassed households with no earners, with new jobs going to those households with somebody already in work.

The number of lone parents more than doubled between the mid-1970s and the mid-1990s and government statistics show that over half of all children in lone parent families live in poverty (60% of median income).<sup>10</sup> One of the reasons for this is simply the low employment rate amongst lone mothers which actually fell between the mid-1970s and the mid-1990s (from 47 to 42%), while the proportion of married mothers in work increased (to 66%) during the same period.<sup>11</sup> About 60% of married

women with pre-school children were economically active in 1998 compared with 36% of lone mothers, a rate which is much lower than in many other European countries. The reasons for these include the high cost of child care. Single mothers with pre-school children who are working full-time spend almost a quarter of their net income on child care.<sup>12</sup> There is also a lack of available formal care with the number of childminding places, which is the most popular type, declining in recent years.<sup>13</sup> Not surprisingly therefore, the proportion of lone parents in receipt of means-tested benefits rose from 43% in the mid-1970s to about 65% in the mid-1990s.

Rising levels of poverty during the 1980s, and a strong connection between labour market inactivity and poverty are two further features of the British welfare landscape.<sup>14</sup> Nearly 20% of all British children grow up in households with nobody in paid work, and the UK has the highest rate of workless households with children across the OECD. About 90% of workless households are poor by conventional definitions (i.e. with below half average household income after housing costs, adjusted by family size). From another perspective, over half of those in poverty reside in workless households.

One reason for this is simply the high risk of poverty which unemployment implies in the UK. Based on the first three waves (1994–96) of the European Community Household Panel (ECHP), Gallie *et al.* demonstrate that almost half of British unemployed were poor (having less than 60% of equivalised household median income)—far higher than in any other of the 11 EU countries covered.<sup>15</sup> Moreover, moving from employment into unemployment bears a higher risk of poverty in Britain than in any of the other countries of the sample. In other words, Gallie *et al.*<sup>16</sup> have shown that it is not simply the case that poor people in Britain are more prone to become unemployed, but that unemployment in the UK leads more easily to poverty than in other countries.

Low benefit rates, and the doubling of the number of claimants of low means-tested benefits in less than 20 years (representing about 5% of the population in the late 1970s but over 12% by the mid-1990s), are but two reasons for the increase in relative poverty. Income inequality is another, rising more steeply than in any other EU country during the 1980s.<sup>17</sup> The trend levelled off in the early 1990s but inequality remained exceptionally high and began to climb again in the latter part of the decade.<sup>18</sup> Driven by a strong increase in wage dispersion and a widening gap between both the low and the middle, and the middle and the top end of the income scale, income inequality (expressed as gini coefficient) climbed from 0.26% in 1979 to 0.38% in 1997.<sup>19</sup>

## 2. MORE—AND SOMETIMES LESS—OF THE SAME: STABILITY AND CHANGE IN MAJOR WELFARE STATE AREAS

At a time when these shifts in the socio-economic contexts occurred, major social policy areas also changed—but neither by increasing the scope of public welfare in order to tackle the problems of inactivity, poverty and income inequality nor by a process of individualising social risks at a large scale. Instead, over 20 years after the first Conservative government made steps towards creating a leaner welfare state with more room for individual provision, not privatisation but internal re-organisation and new management structures in the delivery of public welfare provision have been the most substantial changes affecting major public services.

This has affected local authorities as traditional welfare providers in the areas of housing and social services in particular. One characteristic feature of the post-war British welfare state was its role as a large housing provider. In the 1950s private landlords were regarded as incapable of providing social housing on a scale that was needed. As a result, a major investment into local authority council housing was made so that, 20 years ago, Britain as a whole still had more than 6 million council houses.<sup>20</sup> From another perspective, by 1970 almost a third of the entire housing stock in the UK was rented from local authorities, whereas half was owner-occupied and most of the rest privately rented.<sup>21</sup> However, in the early 1980s the promotion of owner-occupation became the dominant policy aim of the Conservative government. The 1980 Housing Act gave council house tenants the “Right to Buy” their flats or houses and, as an incentive, granted discounts of between 33 and 50% of the market value of the property depending on the length of time tenants had resided in the home. As Hills points out, the effect of the legislation was “far-reaching. By 1995 about 1.7 million tenants had exercised the Right to Buy, purchasing a quarter of the 1980 stock.”<sup>22</sup> A more favourable tax treatment of mortgage interest payments was another instrument which made home ownership financially attractive in the 1980s. The scope of mortgage tax relief was significantly reduced in the 1990s, but home ownership as a form of tenure had already risen from about 55% by the late 1970s to 66% ten years later, with the rate of increase slowing down thereafter. At the same time, local authority renting as a form of tenure declined from just over 30% in the late 1970s to 16% in the late 1990s.<sup>23</sup>

The changed welfare landscape in the area of housing can be illustrated with the shift in the ways in which housing is financially subsidised by the state. Overall public spending on housing over the 20-year period declined somewhat, with a sharp drop in spending in the early 1980s but a recovery in the 1990s not quite reaching previous levels. More significant however was the change in the composition of spending. As earmarked direct investments from central to local authorities (to Housing Revenue Accounts and Rate Support Grants) were cut back, local authorities responded by raising rent levels in order to make up the shortfall. As a consequence, housing benefit became a much more important form of housing subsidy than in previous decades. In fact, both the number of claimants and real expenditure on housing benefit doubled during the first half of the 1980s, and the level of spending doubled again during the subsequent ten years.<sup>24</sup> For the unemployed in particular housing benefit has become an integral part of social security support in the UK, and the receipt of housing benefits has, for many of them, an even more important impact on post-transfer income than unemployment compensation or social assistance. This significance of housing-related benefits is unique in the EU.<sup>25</sup>

However, state support with housing cost is not tenure neutral. Council tenants receive means-tested housing benefit which covers the entire rent, but there is a maximum level of rent eligible which applies to claims for housing benefit by private landlords (and some housing associations). By contrast, housing benefit is not available for homeowners. There is a very high share of home-ownership in the UK and it is difficult to be precise about the rate of home ownership amongst the unemployed, but recent estimates indicate that half of all poor households (income below half average income) are homeowners. Home-ownership grew significantly within the lowest income decile from 30% in 1979 to 42% in 1997/8, and about half of them have a

mortgage.<sup>26</sup> Yet, homeowners receive only about 8% of the state help with housing costs targeted at low-income households.<sup>27</sup> This is because of a change in legislation in October 1995. New mortgages taken out after that date are no longer covered by help with mortgage costs for the first nine months of their claim. This was introduced on the basis that homeowners should be encouraged to take out private mortgage protection payment insurance. However, the latter are often expensive, vary in scope of coverage and there are limitations for households in insecure forms of employment. The take-up, particularly amongst low-income households, has therefore remained low.

The 1988 Housing Act allowed other landlords to bid for contracts for taking over local authority housing, and also allowed local councils to transfer their housing stock to housing associations. Non-profit and for-profit associations were also bidding to manage housing stock or to perform certain functions, such as repair services. This changed role for the local welfare state from a provider to an “enabler” of services was characteristic of a move towards establishing internal or “quasi” markets within the provision of welfare,<sup>28</sup> for example in the area of personal social services.

Personal social services is a term used in the UK which covers a broad range of welfare activities, including residential care, social work services and care for disabled people. As in housing, local authorities have traditionally played a major role in the provision of these services. However, tighter control by the centre on local authority expenditure introduced in the early 1980s effectively constrained choice and policy expansion at local level. Also, Conservative governments in the 1980s were keen on involving the non-statutory sector much more in the provision of care services, which included profit and non-profit organisations but also informal care provided by families. As in housing, the role of the local authority began to shift from a provider towards an “enabling authority” which, by purchasing, contracting and planning, would stimulate an internal care market. In addition, the notion of shifting institutional to “community care,” which had entered the political arena already prior to the 1980s under Labour governments, began to be strongly pushed in the late 1980s. The so-called Community Care reforms, phased in during the early 1990s, aimed to promote the development of domiciliary and day care, and respite services, to enable people to live in their own homes and to encourage the growth of an independent sector alongside public services in order to arrive at a more mixed economy of care. Local authority based social services became responsible for assessing individual needs and for co-ordinating care. They also took over from social security the financial responsibility for the funding of places in independent residential care and nursing homes.<sup>29</sup>

Apart from this shift in the balance between state and non-statutory services, implying substantial change in the internal structure and organisation of personal social services, the restraint on public expenditure was another major policy motivation throughout the period. Driven by increased need and demographic pressure however, the actual level of reduced expenditure was much lower than anticipated and in most years local authorities continued to overspend government targets. Real spending on personal social services actually increased throughout the 1980s and even doubled between the early 1980s and the mid-1990s. As a percentage of GDP however, there has been a much more modest growth from 0.9 to 1.2% during the same period.<sup>30</sup>

In short, as in housing policy, there have been substantial reforms in the

organisation and delivery of personal social services, with implications for the role of local authorities which increasingly adopted more the role of arranging rather than providing services. However, in contrast to the anti-welfare state rhetoric during the 1980s and most of the 1990s, public spending on social services has actually increased or, given rising demand, not substantially cut back. Equally, despite the emergence of a more mixed economy of care, and a greater role for user charges, joint funding and family care, the claim that the sector has been transformed into a privatised system of care provision would be grossly overstated.

Finally, the drive towards internal markets has also affected the delivery of health care. Reforms in the early 1990s separated the functions of provision and purchase of hospital-based healthcare. NHS (National Health Service) hospitals were given greater autonomy from central and local control, providers of care would compete for contracts with purchasers such as area-based health authorities and self-selected groups of general practitioners (GPs) called GP fund holders. These internal changes have not altered the fact that health care delivery in the UK continues to be a tax-funded public model,<sup>31</sup> with the NHS as the dominant actor. Set up in the post-war era to be free at the point of delivery and (almost entirely) funded from general taxation, the NHS continues to be the most popular component of the welfare state—to the point that even Margaret Thatcher had to counter suspicions of her embarking on a policy of privatising health care with the claim that the “NHS is safe with us.”

No surprise therefore that the current Labour government has identified the NHS as the welfare state area which, alongside education, deserves increased investment and its structure as remaining a tax-funded public service. Indeed, the current Labour government abolished the Conservative internal market in 1999, replacing the market based notion of GP fund holders with the more collaborative construction of primary care trusts which became responsible for area-based primary and community health services and which are run by a governing board consisting of GPs, community nurses and representatives of social services.

Whereas there was considerable growth of private health care in the 1970s and 1980s, with the number of people covered by private health insurance doubling,<sup>32</sup> the increase subsequently slowed down. As a percentage of total health care expenditure in the late 1990s, private spending (including dentistry and prescription payments) amounted to about 16%, which is below the level which was reached in the early 1960s.<sup>33</sup> Today about 12% of the population has access to private health care, mainly paid for by their employers. Indeed, rather than a possible move towards privatisation, chronic under-investment in public health care has been at the forefront of public debates for some time. Real spending on the NHS has increased from about 4.5% of GDP in 1980 to around 6% in the late 1990s.<sup>34</sup> But this places the UK at the bottom end of the OECD ranking however and clearly below the average spending in the European Union.

Initially reluctant to commit to any substantial increases in social spending, after five years in government the Labour government finally responded to popular demands for more public investment in health care in order to deal with low standards, outdated infrastructure and problems such as long waiting lists for operations. In April 2002 a budget statement announced an increase of annual investments in the NHS of 7.4% in real terms between 2003 and 2008. Catching up with other EU countries, this

commitment is estimated to raise the proportion spent on health care from currently 7.7 to 9.4% of GDP within five years, lifting the UK slightly above the EU average.

### 3. REVERTING TO TYPE AND BEYOND—THE GROWING DOMINANCE OF THE NEEDS PRINCIPLE

The UK has often been regarded as belonging to the world of liberal welfare states which are characterised by limited state intervention, the encouragement of private forms of social protection and a focus on modest safety-net public welfare.<sup>35</sup> As the previous section has demonstrated, such a characterisation might be questionable when looking across social policy arrangements as a whole, and health care in particular. However, the label is increasingly justified for a narrower perspective on social security. As in other advanced welfare states, social security (understood as the entirety of cash transfers to individuals and families) is by far the largest single item of social spending in the UK which, in turn, is due to the dominance of expenditure on pensions. Despite the anti-welfare rhetoric in the 1980s and most of the 1990s, and the explicit aim of cutting back spending particularly on social security,<sup>36</sup> the real level of spending on all cash transfers continually rose from the early 1980s, with spells of declining spending only occurring in the second half of the decade and a relatively low increase between 1996 and 2000.<sup>37</sup> As a share of GDP benefit spending had started to rise steeply in the mid-1970s. This increase was arrested at about 12% of GDP in the early 1980s, and even dropped to close to 10% in the latter half of the decade. The economic recession in the early 1990s pushed the level upwards again before the rate steadily declined after 1993, reaching about 10% by the end of the 1990s.<sup>38</sup> Overall therefore, it can be argued that benefit spending has been consolidated but there has not been any severe cutting-back which would match government rhetoric. Of course, individual programmes and entitlements were restricted, but demand on expenditure grew due to high unemployment, growing poverty, demographic trends and changing family structures (e.g. a rise in the number of lone parents, the majority of whom relied on state benefits, see Section 1).

In terms of the changing character of the British welfare state, more revealing than overall social security spending has been a change in the relative scope of different benefit types. Most important in this respect has been the growth in the share of means-tested transfers from 17% of all social security spending in the late 1970s to 33% by the end of the 1990s.<sup>39</sup> This development illustrates the increasing dominance of the needs principle within British social security and the declining significance of other principles, and in particular Beveridgean principles of social insurance.<sup>40</sup> In the aftermath of World War II, the British (Beveridgean) version of social insurance (National Insurance) envisaged a contributory revenue base separate from taxation—but with the state as the third contributor alongside employees and employers. Coverage would be comprehensive and contributions as well as benefits would be flat-rate rather than proportional to earnings. This would leave room for individuals to choose other forms of social protection over and above subsistence levels.<sup>41</sup>

This modest but, due to relatively lenient eligibility criteria, fairly universal structure has subsequently been undermined. Today merely the basic state pension has remained as an important component of this system, but even here a process of attrition

can be observed. Until the end of the 1970s, the scope of state pensions in terms of value and coverage grew. Even though the level of the basic pension was relatively low, it was linked to average earnings or price rises (whichever was higher) and the gap between pensioners and average earnings remained therefore stable and even declined somewhat. This trend came to a halt in 1981 when the first Thatcher administration pegged pension increases to the level of inflation rather than average earnings. As a consequence, the relative value of the basic pension against average male earnings began to decline, from 23% in 1981 to 15% in 1993, and is expected to reach 10% by 2010.<sup>42</sup>

For most of its time in opposition the Labour Party pledged to restore the link with average earnings. However, in the mid-1990s this policy was abandoned. Instead the current Labour government introduced a means-tested “top-up” which brings pension levels for those with no other resources above general social assistance rates (but not by much). Since April 2002 the government has also offered a State Second Pension as a supplementary second tier for low earners who are not part of an occupational or private scheme. A third new element is regulated low cost private funded pension schemes. In short, rather than to reinvigorate the Beveridgean notion of basic—but non-means-tested—security, the needs principle is being expanded within public pensions.

For benefit claimants below pension age the growing dominance of the needs principle has become even more evident. Frequent benefit changes in the 1980s contributed to the continual decline of the proportion of claimants receiving contributory unemployment benefits<sup>43</sup> and subsequent reforms in the 1990s under both Conservative and Labour governments reinforced this trend.<sup>44</sup> As a result, the proportion of registered unemployed people in receipt of contributory benefits dropped from over 50% in the 1970s to about 15% by the late 1990s.<sup>45</sup> Contributory benefits have become increasingly irrelevant also for other claimant groups. As a share of total spending on cash transfers for the short-term sick they declined from 95% in the late 1970s to 44% in 1999, and for the long-term sick and disabled from 48 to 24%.<sup>46</sup> In total expenditure terms, the share of contributory-based benefits steadily decreased from about 70% of total social security spending in the mid-1970s to about 50% by the late 1990s.

Of course, it could be argued that the needs principle and poverty alleviation have always been defining characteristics of the British welfare state, as illustrated by Beveridge’s rejection of any state intervention which would go beyond the provision of a guaranteed safety net and the focus on people who were not able to have access to non-statutory forms of social protection. This however would be misreading the post-war reconstruction of British welfare policy which, albeit at a modest level, emphasised the role of a universal and comprehensive National Insurance system as the primary form of state support. Hence, as the evidence above illustrates, the growing dominance of means-testing within social security over the past 20 years does not imply a reverting back to Beveridge’s ideas but a move towards to a new type of welfare state which (at least in the field of social security) subordinates social rights to the imperative of labour market integration backed up by the provision of needs-based state support.

By the mid-1990s, a new cross-party consensus had emerged around the problem of “welfare dependency.”<sup>47</sup> It underpinned the “stricter benefit regime” introduced by the Thatcher and Major governments as well as the Labour Party’s acceptance of the

need to put more duties on benefit claimants of working age. Unlike previous Labour Party policy, the Blair administration accepted that the provision of social security can have detrimental effects on individual behaviour. As a consequence, Labour extended and intensified the trend towards a more prescriptive policy. Particularly the New Deal programmes, aimed at facilitating labour market entry for different claimant groups<sup>48</sup> were heralded as the manifestation of a “new contract” between citizens and the state with the government’s obligation to provide better opportunities for job search, placement or training, matched by an obligation on the part of benefit claimants to accept such options.<sup>49</sup>

The “startling transition” of the Labour Party from defenders of collectivism to “proponents of neoliberal economic policies”<sup>50</sup> can be illustrated by the changing position towards subsidised employment which is a central element within the New Deal and manifest in the new tax credit schemes which subsidise low paid work. Back in the 1980s and even in the early 1990s, Labour Party leaders denounced such subsidies as perpetuating low-paid employment, rewarding bad employers and supporting a poorly performing economy.<sup>51</sup> Back in the 1970s the Labour government introduced reforms (such as an earnings-related secondary pension and favourable pension upratings), which provided social security with a redistributive purpose and indicated a commitment to public social security which is not only about poverty prevention. Accordingly, during their time in opposition, the Labour Party categorically rejected government reforms which undermined social security rights even if these were not needs-based (such as the severe reduction of contributory benefit entitlement for unemployed people in the mid-1990s).

By the mid-1990s Labour’s welfare-to-work strategy became based on a perceived need for a deregulated and flexible labour market. It is this shift in the perception of the role of social security, and labour markets, which has been instrumental for the fact that the growing dominance of the needs principle was not halted but even fostered after Labour regained power in 1997.<sup>52</sup> One of the main characteristics of Labour’s new approach to social security is a lack of concern about different types of benefits and thus different expressions of distributive justice. For the current Labour government, the successful social security policy is defined primarily as helping people into work and, only secondly, to provide a modest safety net for claimants for whom the labour market is not an option. In other words, participation in employment (with the help of means-tested benefits, tax credits and much more conditional support) has become the litmus test for a successful social security system.<sup>53</sup> In this sense, the recent re-labelling of the Department of Social Security into the Department for Work and Pensions can be regarded as symbolic.

## CONCLUSION

If defined as something which is unsustainable or out of control, the British welfare state is not in crisis. Despite the anti-welfare rhetoric at the time, social spending increased during the 1980s partly due to social and demographic change but mainly as a consequence of unemployment and growing need for cash transfers.<sup>54</sup> This expansion was halted in the 1990s. A plethora of policy reforms over the past 20 years have generated considerable savings and created a social security system which has become

almost exclusively aimed at providing a safety net for the poor. Steadily rising employment and labour market activity rates since the early 1990s have provided a favourable revenue base and potential fiscal problems, e.g. demographic changes in the context of low birth rates and an ageing population, are less acute than in other European welfare states with much more generous public pension schemes.<sup>55</sup> The recent decision to substantially raise the level of funding for the NHS testifies to both room for (selective) welfare state expansion and a commitment to collectively provided health care as a characteristic element of the British welfare state for some time yet.

However, despite the absence of massive forms of retrenchment or significant growth in privatised welfare, some important components of the British model have undergone significant transitions within the past 20 years or so. This applies to the switch in the form in which help with housing costs is provided for example, or to the changed role of local authorities from provider to one of assessing needs for personal social services and enabling these to be met by non-statutory bodies. Most of all however, it is public social security support which has been redefined as something which is first and foremost aimed at labour market re-integration of working age claimants and, only secondly, as providing modest needs-based security. This notion of social security required a considerable re-think within the Labour Party, but is now both firmly established within the Labour government and supported by a broad cross-party consensus.

In the early 1990s, Ginsburg aptly characterised the British welfare state as a form of “liberal collectivism.”<sup>56</sup> This categorisation would still apply to date, yet it could be argued that the level of collectivism has declined in the light of, as outlined in this article, merely modest investments in health care and education which did not match demands and led to declining standards. By contrast, the degree of liberalism has gained in importance. Acting as the last safety-net has certainly become an ever stronger ideology, particularly within social security. Admittedly, the degree of means-testing has increased also in other European welfare states during the 1990s, and particularly in Finland.<sup>57</sup> However, together with Ireland, the UK is unique in the EU with regard to the overall importance of means-testing.

Politically and fiscally however the British welfare state is now more stable than it ever has been since the crisis debate in the early 1980s. Yet from a societal perspective it can be questioned whether social policy arrangements are effectively tackling social problems, the scope of which has, as outlined in the article, not diminished but grown over the past 20 years. The extent of income inequality and poverty, for example, is much higher now than at the end of the 1970s—and much more acute than in most other European countries. The same is true for the proportion of children living in poverty, for the share of households without any adults in work and for the level of inactivity amongst working-age men. Pockets of cumulative labour market disadvantage and spatial aspects of social exclusion seem to have become ever more apparent and more difficult to tackle.

Of course, social security cannot in itself solve these problems, but it can play a contributory part. A social security system however which is based on modest levels of support and for almost all transfers requires a strict means test, will do little, if anything, in this respect. Not surprising therefore, the Labour government has been criticised for not pursuing a more explicit approach towards reducing inequalities and tackling

poverty.<sup>58</sup> However, it would be wrong to accuse the Blair government of having accepted and simply continuing the previous Conservative welfare state agenda. Unlike its predecessor, Labour has explicitly acknowledged poverty as a social problem and set itself quantifiable aims against which performance can be assessed. The government can also point to some success in the fight against social exclusion (HM Treasury and DWP, 2001).<sup>59</sup> Nevertheless, unlike many other advanced European welfare states which have also emphasised the need to embark on a more active approach towards integrating working age benefit claimants into the labour market, high levels of post-tax inequality and poverty, as well as the explicit rejection of a more redistributive social security policy, have become the distinctive characteristics of the modern British welfare state.

## NOTES

1. J. Clasen, "Modern Social Democracy and European Welfare State Reform," *Social Policy and Society* 1(1) (2002): 67–76.
2. Such comprehensive overviews, often covering much shorter time spans, are generally manifested in sizeable monographs. For the 1980s, see, for example, the following texts: M. McCarthy, ed., *The New Politics of Welfare* (London: Macmillan, 1990); N. Johnson, *Reconstructing the Welfare State. A Decade of Change* (Hemel Hempstead: Harvester Wheatsheaf, 1990); and J. Hills, ed., *The State of Welfare. The Welfare State in Britain since 1974* (Oxford: Clarendon Press, 1990). For reviews reaching into the 1990s see: Ellison and Pierson, 1998; H. Glennerster and J. Hills, eds, *The State of Welfare. The Economics of Social Spending* (Oxford: Oxford University Press, 1998); and M. Powell, ed., *New Labour, New Welfare State?* (Bristol: The Policy Press, 1999) which covers Labour's first year in office after 1997. For overviews which go back further into the post-war era, see Lowe, 1993; H. Glennerster, *British Social Policy since 1945* (Oxford: Blackwell, 1995); N. Timmins, *The Five Giants: a Biography of the Welfare State* (London: Fontana, 1995); and M. Powell and M. Hewitt, *Welfare State and Welfare Change* (London, Open University Press, 2002).
3. For example, DWP (Department for Work and Pensions), *Departmental Framework* (London: DWP, March 2002), 49.
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13. *Ibid.*
14. M. Howard, A. Garnham, G. Fimister and J. Veit-Wilson, *Poverty: The Facts*, 4th edition (London: CPAG, 2001).

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15. D. Gallie, S. Paugam and S. Jacobs, "Unemployment, Poverty and Social Isolation: Is There a Vicious Circle of Social Exclusion?," paper presented at Euresco conference on Labour Market Change, Unemployment and Citizenship in Europe, Helsinki, 2001.
16. *Ibid.*
17. J. Hills, *Inquiry into Income and Wealth* (York: Joseph Rowntree Foundation, 1995), 66.
18. T. Clark and J. Taylor, "Income Inequality: A Tale of Two Cycles?," *Fiscal Studies* 20(4) (1999): 387–408.
19. *Ibid.*
20. J. Perry, "The End of Council Housing?," in *Housing Finance Review 2000/2001*, ed. S. Wilcox (York: Joseph Rowntree Foundation, 2000).
21. Johnson, *Reconstructing the Welfare State*, 130.
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