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**THE DOUBLE  
CRISIS OF THE  
WELFARE STATE  
AND WHAT WE  
CAN DO ABOUT IT**

**Peter Taylor-Gooby**



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# The Double Crisis of the Welfare State and What We Can Do About It

Peter Taylor-Gooby

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## The Double Crisis of the Welfare State and What We Can Do About It

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## Preface

Most people agree that the British welfare state faces problems. This book follows the guiding principle of much academic research: why let something be difficult when with careful reflection you can make it seem impossible? It also seeks to be positive.

We identify two crises: first, the immediate crisis resulting from the 2010 government's decision to respond to the longest recession for over a century by the deepest and most precipitate cuts ever made in social provision in this country plus a massive restructuring programme affecting nearly every area of public provision. Second, the long-run crisis of rising costs due to population ageing, insistent wage pressures and rising aspirations in the big-spending welfare state services of health and social care, education and pensions.

The first crisis is compounded by policies which direct the harshest welfare state cuts to benefits and services for those of working age, particularly affecting women and families, and by the restructuring of the NHS, social care, local government, the education service and all benefits apart from pensions. This will fragment national services, greatly expand the role of the private for-profit sector and intensify work pressures. It is hard to avoid the impression that some, at least, in government are seizing an opportunity to implement policies which deepen social divisions and undermine the contribution of common social provision, symbolised by the NHS, to social cohesion. One objective is to embed the cuts permanently. Another is to



advance a larger programme to shift the political economy of the UK towards a radical, competitive and individualistic liberalism.

The second crisis exerts more gradual but equally insistent pressures on the more popular mass services, health, education and pensions, which have escaped the most stringent cuts in the immediate crisis. The two crises are linked because it is the popularity of the mass services that leads the current government, committed to spending cuts, to concentrate those cuts on services and benefits for poor minorities. If extra money is not found in the longer term, the continuing growth of demand for resources in the more popular areas will squeeze spending targeted on the poor even further.

One obstacle in the way of attempts to promote more humane and generous welfare is the 'welfare state trilemma': the three goals of designing a generous, inclusive system, ensuring it is effective in meeting the challenge of the double crisis and winning an election are hard to reconcile, especially when the platform includes higher spending on welfare. British voters dislike tax increases; the majority believe that the poor are work-shy.

The book argues that a viable and humane programme is possible and that current circumstances offer an excellent opportunity to start implementing it. Welfare for those of working age rests almost entirely on stigmatic means-testing that separates out claimers from others and endlessly questions their willingness to work. Substantial progress has been made in developing proposals for more inclusive policies that treat them as past or potential contributors to society with normal aspirations for work and family life. Such policies involve considerable extra spending and could be introduced only in stages as the link between entitlement and social contribution is established in the public mind.

There are indications that the public would accept extra spending to address poverty among children, who cannot be seen as responsible for the circumstances they find themselves in, and for adults who take responsibility for their lives. About three-fifths of people below the poverty line live in households where there is at least one full-time earner. Much working-age poverty is a problem of low wages, not of shirking. Social investment, preventative policies and 'pre-distribution', centred on higher minimum wages, could raise incomes at the bottom and reduce the costs of redistributive welfare to help mitigate working-age poverty.

The incidence of poverty among children is higher than among adults. The sums involved (0.7 per cent GDP to end child poverty at current

levels) are large but not impossible, being about one and a half times the increased spending on benefits for children during the past two decades. Further resources to kick-start social investment programmes in child and elder care and to start developing contributory welfare among working-age adults might come from a reduction in the 1.1 per cent of GDP accounted for by tax relief on non-state pensions. The experience of shared inclusive provision that emphasises social contribution and common aspirations for family life will also help shift public attitudes towards support for more humane and inclusive policies, while heavily regulated continually work-tested provision marks down claimers as scroungers who must prove otherwise. In this sense generous welfare builds its own constituency.

In relation to the long-run crisis, the experience of the past two decades is that sustained pressure to raise productivity has enabled health and education spending to keep pace with wage pressures. Projections by UK and European agencies show that the problems in the long-run are again not insuperable, equivalent to raising an extra 0.4 per cent of GDP in tax each decade for half a century. State spending in these areas has in fact risen at roughly twice this rate during the past three decades. Spending on private schools, clinics, medical insurance and pensions has also risen sharply. People value health care, education and pensions, are prepared to pay for them and presumably will continue to do so. The real question is whether the extra money will support better national services or unequal, divisive and ill-co-ordinated private systems. Further problems arise in ensuring all social groups can get the same access to the best schools and colleges, and that health care outcomes are more equal. Specific additional targeted measures could raise standards for the most vulnerable. Additional regulation for the private welfare state, directed largely at better-off groups, will also help promote cohesiveness and equality.

These reforms are affordable if introduced over time by a determined government. The next question is how to ensure public support. The major social changes of recent years result from three processes: women participate in paid work on a footing more nearly equal to that of men but are more heavily burdened with child and elder care; education, training and skill are much more important in determining opportunities in work and in a world where income inequalities are stretching out; and people live more flexible family and working lives, so that it is harder to safeguard against risks and insecurities in losing a job, needing to provide care for a frail relative or meeting sharp rent increases. The emergence of the new

social risks that affect people during working life not only challenges the welfare state but also provides new constituencies of support for collective social provision. The common need for these services and the inability of the non-state sector to provide them for those on low and middle incomes is increasingly obvious, especially during the current crisis, when insecurities affect more and more people. New risks affect particular groups at specific life-stages. An effective political platform for the welfare state would need to draw together a range of interests in relation to education, training, child and elder care, low pay, working conditions and employment protection and link this with the child poverty and social contribution programmes outlined above.

The response to the double crisis set out in this book involves real increases in state expenditure: Britain would eventually move back to its previous position at the middle of the group of major industrialised countries ranked by government spending, rather than falling to the bottom. A reforming government would need to confront the interests of the winners under the current policy regime, and of newly entrenched commercial service providers. It would face opposition in raising wage levels for those on the lowest incomes and in implementing more stringent regulation of private and charitable providers. However, the levels of spending in question are feasible because they follow the trend to the expansion of welfare state spending during the turbulent period of the past three decades, under a variety of governments. The newly important needs for child and elder care, education, training and opportunities, affordable rents, decent wages and more say in the workplace bridge across a range of social groups and rally a coalition of support for the programme. The double crisis is being used by the current government to justify abandoning the commitment to a generous and inclusive welfare state and shifting to market liberalism on the US pattern. It also provides the opportunity to construct a realistic programme which might take Britain in a very different direction.

This book would not have been possible without help and advice from a large number of colleagues. Particular thanks are due to the Leverhulme Trust, which generously supported the work with a Fellowship, to Ben Baumberg, Kate Bell, Hartley Dean, Nick Ellison, Ian Gough, Andrew Harrop, Gavin Kelly, Colin Hay, Martin Seeleib-Kaiser, Jane Lewis, Richard Scase, Gerry Stoker, Trude Sundberg and Win van Oorschot, who generously commented on various drafts, to my bike, for taking my mind off things, and, as always, to my family.

## List of Abbreviations

BIS	Department for Business, Innovation and Skills
CCG	Clinical Commissioning Group
CBI	Confederation of British Industry
CPI	Consumer Price Index
CQC	Care Quality Commission
DH	Department of Health
DWP	Department for Work and Pensions
EC	European Commission
ECB	European Central Bank
EU	European Union
GMG	Glasgow Media Group
HoC	House of Commons
IFS	Institute for Fiscal Studies
IMF	International Monetary Fund
IPPR	Institute for Public Policy Research
NAO	National Audit Office
NCVO	National Council for Voluntary Organisations
NI	National Insurance
NICE	National Institute for Health and Clinical Excellence
PFI	Private Finance Initiative
PPP	Public–Private Partnership

OBR	Office for Budgetary Responsibility
HCPAC	House of Commons Public Accounts Committee
HCPASC	House of Commons Public Administration Select Committee
PISA	Programme for International Student Assessment
RPI	Retail Price Index
SCIE	Social Care Institute for Excellence
VAT	Value Added Tax
WBG	Women's Budget Group

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# 1

## The Double Crisis of the Welfare State

**Abstract:** *The British welfare state faces a double crisis: immediate cutbacks in response to the recession bearing most heavily on benefits and services for those on low incomes, especially women and families, and longer-term pressures on health and social care, education and pensions from population ageing and other factors. Government decisions to focus the cuts on the most vulnerable exacerbate the first crisis. Policies which fragment and privatise the main state services in response to the second undermine the tradition of a universal welfare state. The cuts are deeper and more precipitate than any among comparable developed economies or for at least a century in the UK.*

**Keywords:** cuts; double crisis; fragmentation; liberalism; population ageing; privatisation; retrenchment; welfare state; women

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The welfare state, the idea that a successful, competitive, capitalist market economy can be combined with effective services to reduce poverty and meet the needs people experience in their everyday lives, was the great gift of Europe to the world. Now it is under attack and it is a war on two fronts. The conflict is experienced with especial severity in the UK. The response to the 2007–8 banking crisis, repeated recessions and economic stagnation in this country has been to balance budgets by cutting government spending rather than increasing taxes. The harshest cuts are in social provision, with the poorest groups bearing the brunt.

Standing behind the immediate attack on the welfare state is a second crisis, which now attracts rather less attention in policy debate. Projections of the numbers likely to use the main welfare state services (health and social care, education and pensions), of future wage levels and of other factors indicate that the costs of maintaining, let alone improving, provision will rise steadily during the next half-century. Tax-payers will have to pay more or accept lower standards.

This book addresses the double crisis of the welfare state with a particular focus on the UK. It shows how the immediate and longer-run pressures interact. The second, slow-burn crisis sets the mass of the population against more vulnerable minorities. The high-spending expensive services, such as health, education and pensions, are top priorities for most people. Spending on the less popular benefits and services that redistribute to the poor is steadily eroded. The government's response to the immediate economic crisis builds on this division, cutting the redistributive benefits to maintain the big-spending mass services. The fact that this is happening in a context of growing inequalities and social divisions makes the task of developing a humane and generous, effective and politically feasible response to the double crisis that much harder.

In this chapter we examine the twin crises in more detail. Chapter 2 considers how they interact and analyses their impact on the politics of state welfare. Chapter 3 examines the problems faced in making a case to sustain and improve provision in the current context, focusing on redistributive welfare for the poor. Chapter 4 extends the discussion of feasible, effective and humane policies to health and social care, pensions and education. Chapter 5 brings these arguments together, evaluates the opportunities for more generous and inclusive directions in policy and identifies the political forces that might be harnessed to drive them forward.