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## Economic Perspective 4

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### THE FAILURE OF BEVERIDGE

Anne Miller  
Department of Economics  
Heriot-Watt University

"The review of the supplementary benefit scheme was announced by the Secretary of State for Social Services on 2 April 1984. It is one of four major reviews which together constitute a substantial re-examination of the social security system to see if better use can be made of resources and staff within the present overall level of social security expenditure...."

Thus began the consultation document "Supplementary Benefit Review" issued by the Department of Health and Social Security on 16 May 1984. Since it is well known that the social security system is in a complete mess, the announcement of a substantial re-examination such as this, surely, can only be welcomed as a long overdue first step towards a major improvement - or can it? The announcement itself makes it quite clear that no extra funds will be available, and the consultation documents continue by emphasising the limited objectives for their reviews; "to ensure that it is as simple as possible" (housing benefit) and "to consider the scope for easing its administration" (supplementary benefit).

I and other sceptics may be forgiven for predicting that, in spite of much talk of these reviews, and a substantial amount of evidence submitted by the voluntary organisations and pressure groups which comprise the poverty lobby, precious little will occur that will redress the shortcomings of the present system. The changes that will be effected will amount to a mere tinkering with the system,

probably redistributing poverty amongst poor people in a slightly different way, and this administration will probably try to use the evidence as an excuse to cut real benefit levels even further.

This uncharacteristic pessimism on my part results primarily from the outcome of former investigations by governments, the announcements of which I used to greet with optimism. Either the recommendations of those investigations have been ignored completely, or the brief for the study was so narrow as to preclude any useful recommendations. For instance, to what use will the enormous amount of evidence collected by the Meacher Committee (1983) in its three volume report "The Structure of Personal Income Taxation and Income Support" be put? Why was the Tax Credit Scheme in the Green Paper on the Taxation of Husband and Wife (Cmd 8093, 1980) not extended to cover **benefits** for husband and wife, so that the disaggregation option could have been really meaningful to married women? Similarly with the present reviews, - why four separate reviews? - why preclude the possibility of integrating the social security and taxation systems, as logically they should be? The supplementary benefit review consultation document claims that its terms of reference are wide, yet its key issues for consultation are constrained by many assumptions, such as the continuation of means-tested benefits, and that support should continue to be related to detailed individual circumstances. The consultation documents are concerned only about symptoms rather than with seeking insights into the causes of the ills of our social security system.

So, what is wrong with our current social

security system? It is complex and difficult for claimants and administrators alike to understand. Its anomalies are legion and lead to much inequity and injustice. It is expensive to administer and costly in time, effort, emotional energy and in loss of dignity and privacy to the recipients. And yet these deficiencies are merely symptoms. Similarly, the piecemeal attempts over the years to treat the symptoms on the cheap, are merely band-aids. The cause goes much much deeper, and must be identified as the central design of the system itself. The system is merely doing what it is designed to do. Thus simplification on its own will not cure the ill. In fact, simplification can never be an objective in its own right but can only provide a decision rule for choosing between different methods of achieving the same objective!

Our current system is broadly based on Beveridge's proposal (Cmnd 6404; 1942) for a social insurance scheme. He assumed that **earnings** would be the means by which most households would avoid financial poverty, implying in its turn that paid employment opportunities would always be available, supposedly guaranteed by a fast growth economy. Even when full employment (however defined) and sustained growth are achieved, Beveridge's basic reliance on earnings to prevent financial poverty ignores some painful truths. Paid employment is an arbitrary and inequitable distributor of claims to resources, merely reflecting initial human endowments; it cannot necessarily guarantee to low earners an income level sufficient for physical subsistence: and it ignores the fact that the majority of the population, (the 'vulnerable of society') are excluded from the labour market on account of youth, age, disability or caring responsibilities for young, sick or infirm.

The total working population of 26 million is less than half the population of 56 million for the UK. Beveridge devised a national insurance scheme to provide compensating income for a temporary (unemployment, sickness) or a planned (retirement) loss of earnings. This has necessitated a rigid employment structure categorising people arbitrarily into full-time, part-time, self-employed, retired and unemployment categories, which is not only largely irrelevant now, but hinders

social change towards more flexible and varied work patterns. The poverty of those not catered for by either earnings or replacement income was to be relieved by a non-contributory benefit (first called national assistance, now supplementary benefit), which was to provide a safety net for a very small minority of people! However, this "minority" inevitably comprises many of the vulnerables excluded from the labour force. The safety net merely redefines and perpetuates new categories of poverty. Throughout his plans, Beveridge envisaged that married women would accept and maintain the role of mere financial appendages of their husbands. Neither the changes in attitudes towards women, nor the changes in their lifestyles and aspirations, which have occurred in one generation, nor the numbers of single parent households, nor the variety of household configurations that were to evolve, were anticipated. Viewed in this light, one is surprised, not by the fact that the system fails, but rather that anyone could have seriously regarded it as a working model.

Having identified the cause of the malfunctioning to be a major design fault which has corrupted the system, one might stand some chance of correcting the fault. But first, one must define explicitly the criteria that the design of the system is intended to meet. Beveridge's scheme might be regarded as aiming to prevent financial poverty via earnings, and then to relieve any incidents that did occur via benefits. I think we should set ourselves even higher standards. Not only should we ensure that financial poverty is prevented, but in the same way that we extend political democracy to our citizens (even though only on polling days), we should extend "economic democracy" also. This concept has many facets. The right to offer one's labour in the market place, in return for wages, is one obvious facet. The right to the necessities of life is also important for the vulnerables. Yet this right by itself is not enough. The right to choose to be an economic agent is also necessary for economic democracy. One might wonder why married women with caring responsibilities, who are thereby excluded from the labour market, are not yet entitled under the law to enjoy this right. Another aspect of economic democracy is the right to participate in one's community in terms of both production and consumption, as recognised by Townsend (1979) in his monumental work "Poverty in the UK", where he has defined poverty in terms of exclusion and isolation from one's usual association group.

Many of our "economic" problems in the UK are problems about our allocation of claims to basic resources, and come under the general heading of distributional problems. Both inflation and unemployment are first and foremost problems of distribution. It behoves us to face the underlying problem squarely and directly at source, thus providing our social infrastructure with a better balance and more stability, rather than to try to patch up the symptoms as an after-thought.

Townsend (1979) identifies three distinct general principles which might govern alternative policies for dealing with large scale deprivation or poverty. "Conditional welfare for the few was represented by the development of the Poor Laws, as reflected in the Report of the Poor Law Commission of 1832-4... Characteristic of such policy is the maximisation of relief through charity and voluntary effort, and public expenditure kept low by the barrier of means tests." This principle persists today in the form of supplementary benefit.

"Minimum rights for the many.... was spelt out in the Reports on the Poor Law of 1909,....., and was taken up with renewed vigour in the Beveridge Report of 1942, with its stress on insurance to provide a minimum subsistence as the basis of benefits...."

"The third principle, distributional justice for all, has not yet been clearly articulated or tried in Britain...." Perhaps we should try this one next?

Ward Morehouse's General Stock Ownership Plan (GSOP) (1984) is an ingenious idea to "make everyone a capitalist, and in doing so, let everyone have a share in the income generated by productive assets", starting in the USA. Every American family would acquire, via government guaranteed loans to be repaid out of the earnings of the stock, a \$100,000 share in the new productive assets that American industry is likely to acquire in the next 20 years. The stock would yield an income for each family, paying out all profits as dividends (in return for exemption from corporate income tax).

This idea gives a capitalist solution, in keeping with American culture, to the problem that Marx wanted to solve by the communal ownership of capital.

Another solution to the problem of achieving some measure of economic democracy is that of the guaranteed minimum income, also known as the social dividend, or the basic income (Miller; 1984). This does not quite fit into Townsend's three board principles, being a combination of the second and third, providing "minimum rights for all". There are many versions of Basic Income Schemes, but they are characterised by the following principles:-

- (a) the **individual** is the tax and benefit unit;
- (b) each individual is entitled to an "adequate" basic income, paid automatically into his/her account;
- (c) the entitlement is based on citizenship, not on 'worth', and is universal with respect to sex, marital status, and employment status. It could vary according to age;
- (d) additional provisions would be made for special cases, such as disabled people, and for those with exceptional needs, which occur irregularly, infrequently and unpredictably, such as those arising from fire or flood.

Thus each individual receives a regular income, which forms the basis on which to build further income via earnings. Some readers, on meeting this idea for the first time, become concerned that, if all receive their basic incomes regardless of employment status, everyone (else) may give up work, and the economy would fall apart. It might appear that the **only** solution is to make the right to a basic income conditional on one's work status, to coerce people to work, with all the current problems of judgement, discrimination and policing. However, advocates of the basic income approach prefer carrots to sticks. We recognise that on the whole people wish to work, to

participate in, and contribute to, their society, and that this is a source of great pride to them. Secondly, as we have noted in recent years, there are still social stigmas against not working. Thirdly, there are many personal advantages to be gained from working, including the opportunity to make friends, an identity and status, job satisfaction in many jobs, a structure to one's day and a purpose in life. Fourthly, if the basic income were indexed to a measure of economic activity, such as national income, then if this should suffer, the basic income would be reduced, thus restoring incentives to work harder. Fifthly, the basic income principle would allow - some would claim that it is a necessary condition for - a free labour market to operate for the first time, where both wages are flexible, and labour hours are negotiable. In this circumstance, wages are likely to provide one of the most significant of all incentives to work. If an individual is tempted to withdraw from the labour market for whatever reason and the economy cannot do without that individual's services, then the individual's wages rate will rise until his/her price is reached. On the other hand, there will be some situations where wage rates will fall. Thus the structure of wage rates is likely to be different under a basic income system.

A Basic Income scheme could be financed out of taxation. However, the complete design of a simple, integrated, direct personal taxation and benefit system will depend on society's policies on many diverse issues, including employment, housing, replacement income schemes, personal savings, and its degree of redistribution of income and wealth. The whole fiscal system not only provides a means of raising revenue for government expenditure on current consumption and investment, but complemented by the other essential legislative measures, it is a powerful instrument for the well defined, imaginative and humane social policies that the country so urgently needs.

This article does not attempt to provide a complete cure for the ills of the current social security system. It has attempted to identify a more fundamental cause for those ills than most are prepared to admit exists, and thus it indicates from where one might start one's search for a

solution. Even if these reviews should constitute the most substantial re-examination of the social security system since Beveridge, as I have no doubt they could in terms of volume of evidence, then it is not enough. We do not need a re-examination; we need another Beveridge, but with a new brief! But let us take note. When Beveridge presented his report in 1942, it was probably already about 30 years out of date then. Now it is obvious that his design is not fulfilling its required role, and is hindering spontaneous, healthy, social development in the community. Let us look to the future, and design our fiscal system with it in mind, and as soon as that new system is operating, let us start preparing for the next version immediately, so that we will not be caught out again with another fossilised elephant on our hands.

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