

SOCIAL SECURITY – WHERE HAVE WE BEEN AND WHERE ARE WE GOING?

If universal credit is the answer, what on earth was the question?

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Introduction – a brief history

Our social security system is failing us big time. We have gone from Beveridge's bestseller in 1942, which aimed to abolish the five giants of 'want, disease, ignorance, squalor and idleness', to the shaming spectacle of food banks and destitution in 2019, with 7 in 10 poor children living with a least one earner. What on earth happened?

Tasked with reviewing the patchwork of existing health and social insurance schemes and remnants of the poor law, Beveridge set about creating a comprehensive system based on a national health service, national insurance benefits and child allowances. In the midst of war, he declared: 'A revolutionary moment in the world's history is a time for revolutions, not for patching.'¹ His plan was dubbed by the press as support 'from the cradle to the grave'. But Churchill dismissed it as 'false hopes and airy visions of utopia and El Dorado'.² As we face another revolutionary moment in UK history, has Churchill turned out to be right?

Local poor law origins

Recognisable themes repeat themselves across the history of UK social security. 'Deserving' and 'undeserving', low rates of benefit and extensive means-testing. Under the Elizabethan poor law, parish relief was designed to provide a residual safety net when other resources – from paid work, savings, charity, family and friends - had failed.³ Examples include residential 'indoor relief' and cash 'outdoor relief' for the deserving sick, orphans, elderly and widows. Acts of settlement meant help only for local people while others were returned to wherever they came from. With industrialisation and more movement of labour, this became untenable.

In response, the Poor Law Amendment Act in 1834, introduced the dreaded workhouse where parents and children were separated and heads shorn, attracting fear and stigma. Still funded by local rates, support was based on the principle of ‘less eligibility’, where relief should not be more than that received by the ‘independent labourer of the lowest class’.⁴ ‘Pauperism’ caused by indolence and vice would be discouraged and labour market discipline enforced. Over time, many of these institutions ended up as care institutions of one kind or another, including hospitals. Cash support became means-tested unemployment assistance in 1934 and national assistance in 1940. But feelings of ‘shame’ associated with poor law support have never been fully abolished.

Developing a national scheme

National health insurance, initiated by Lloyd George, and unemployment insurance, devised by Beveridge when advising Churchill at the Board of Trade, were both influenced by Bismarckian national insurance. By the turn of the twentieth century and, in part informed by the poor condition of recruits for the Boer War, Liberal governments had introduced the first old-age pensions (in 1908) and unemployment and sickness benefits (in 1911). The Fabians, in their minority report to the Poor Law Commission of 1909, had argued for tax-funded services to help poor people, but ran up against opposition from the Charity Organisation Society, which preferred a family-based social work model. There was also a plethora of insurance schemes run by friendly societies and trade unions. So the poor law was not completely replaced until Beveridge. His 1942 report arose out of a Ministerial request to review all such schemes and allied services and ‘make ‘recommendations’.

The Beveridge plan

Airily dismissed these days as ‘the legacy system’, Beveridge’s intentions for social security were big – to eliminate the causes of poverty he identified in his 1942 report: ‘the aim of the plan for social security is to make want under any circumstances unnecessary.’⁵ Published during the second world war, but clearly addressing concerns about the high unemployment and poverty of the inter-war years, the Beveridge plan introduced a comprehensive new system of flat-rate benefits paid for by compulsory national insurance contributions – ‘benefit in return for contributions, rather than free allowances from the State, is what the people of Britain desire.’⁶ He made three assumptions to underpin his new system: a comprehensive health service; full employment (below 8.5 per cent); and children’s allowances – later, family allowances – because wages can never take account of family size, and nor should they.

The heirs to Beveridge

Since then, ministers making changes to our benefits system all tend to claim that their efforts are the biggest, most far-reaching reforms since Beveridge - without any equivalent ambition to abolish poverty - the Fowler reviews of the 1980s, which sought to align and simplify the rules across means-tested benefits, and the introduction of universal credit are both cases in point. However, they may sound like Fordist, big-state solutions to perceived problems, but they are modest compared with Beveridge. There has been little equivalent ambition to abolish poverty (only tax credits in 1999 were intended to be part of a comprehensive strategy to end child poverty) and the direction of travel over the decades since Beveridge has been to deliver massive increases in means testing and complexity, for small results. Our system has more recently become harsher, with more conditionality and sanctions, less generous, and arguably has dealt poorly with social changes in gender relations, disability and ethnicity, rising housing and childcare costs and a radically changed labour market.

Where did it all go wrong?

First, inadequate benefits. In the UK, we missed the opportunity to invest in decently paid, earnings-related payments, unlike other European countries such as the social democratic Scandinavian states, which still top league tables on poverty prevention and the wellbeing of citizens. Making that investment today is still not

impossible, but it would take a seismic, ambitious moment like Beveridge took advantage of to help us get there. Perhaps that is where we are today? Beveridge himself had insisted on benefits adequate for full subsistence based on Joseph Rowntree-style budgets and was very strongly opposed to means testing. He also recommended that national insurance should be introduced gradually over 20 years, so that it would be fully funded. But he recognised that in 1942 he could not tell when his proposals would be implemented or what prices would be at that time. He therefore left it to the politicians implementing the scheme to decide appropriate subsistence levels.

The post-war Labour government wanted to implement Beveridge's plan in a hurry and felt they could not afford adequate benefits while reconstructing the economy, so benefit rates were below what Beveridge wanted, to his annoyance. As a result, many remained reliant on means testing and despite the attempts of later governments to introduce earnings-related elements to sickness and unemployment benefits and additions for spouses and children, these did not survive and were finally axed in 1983. Earnings-related pensions from 1957 and state earnings-related pension (SERPS) introduced in 1975 were severely cut in 1986 as part of the Fowler reviews. The reviews substantially cut means-tested benefits and froze Child Benefit.

Second, the place of women. Beveridge was very clear that married women who were not in employment should receive benefits by right, funded by their husbands' contributions, as partners of their husbands. His ideas were influenced by the prominent feminist Eleanor Rathbone and women's organisations. Housewives 'must be regarded as occupied on work which is vital though unpaid, without which their husbands could not do their paid work and without which the nation could not continue. The position of housewives is recognised in form and in substance by treating them as partners sharing benefit and pension when there are no earnings to share'.⁷ Since most married women stayed at home (not least because the 'marriage bar' which stopped women working after marriage was still widespread in 1942), it was impossible to fit women who did not work into a contributory insurance scheme.

Feminists have criticised him since for assuming women's dependency: 'The attitude of the housewife to gainful employment outside the home is not and should not be the same as that of a single woman. She has other duties'...⁸ 'In the next 30 years, housewives as mothers have vital work to do in ensuring the adequate continuance of the British race and of British ideals in the world.'⁹ Women were to receive lower benefit rates unless they opted to make the full contribution, as they were entitled to, though too few did. Employed married women living with their husbands were allowed lower contributions and benefits because rent was a major outgoing and their husbands were expected to pay for it. These reduced contributions left many women with little entitlement to anything, including pensions, by the end of their lives.

The system was therefore ill-equipped to deal with the growth of lone parenthood that took place after divorce was made available to all in 1969, and women's growing independence. Beveridge had thought about the idea of a social insurance benefit for separated women and recommended that separated women (like widows) should continue to have rights to benefits, along with 'unmarried wives' (cohabitees), based on male contributions. This was opposed by right-wingers, as they believed it would undermine marriage and the proposal was dropped by the Attlee government. A closer look at universal credit shows that attitudes may not have shifted very far from those days, with couples receiving one payment into a household and single parents taking the lion's share of cuts to family benefits in this decade.¹⁰ Campaigners like Eleanor Rathbone later won a commitment to family allowances paid to mothers and, in the 1970s, Barbara Castle supported the change to child benefit to avoid the situation where higher earners got more from child tax allowances than lower earners did. Combining these allowances with the family allowance created the modern child benefit.

Third, disabled people. Beveridge was aware that young people, young disabled people and those who would never be able to work and make contributions in their own right would never become entitled to

unemployment, sickness and invalidity (later incapacity) benefits. His brief in 1942 was to reform social insurance, so he recommended further investigations into how to treat these people fairly. Like many of his proposals, this was not taken up. Nor did he address the question of the additional costs of disability. This led to the accretion of a series of non-contributory benefits for disabled people – first non-contributory invalidity pension, then severe disablement allowance, and finally employment and support allowance. As well as these income-replacement benefits, attendance allowance and mobility allowance were introduced to help with the extra costs of disability, followed later by disability living allowance (which amalgamated the two), which is now being replaced by personal independence payment. Benefits for carers also came late in the day. It took the EEC Equal Treatment Directive in 1976 to finally remove some of the sexist nonsense from these benefits, since it was assumed that married women would be provided for by their husbands. For example, married women were not allowed to claim Invalid Care Allowance on the same terms as single women until the Drake case and the notorious housewives non-contributory invalidity pension required women not only to prove they were incapable of work, but also incapable of housework. Unbelievably, this benefit was actually introduced in 1976 just after the UK's own 1975 sex discrimination legislation and only finally replaced in 1984. On the plus side, at least housework was regarded as work!

Fourth, people from abroad. We need to go further back to the turn of the 20th century to discover why our benefits system deals so harshly with people from abroad. People may be surprised to know that the Victorians and all previous generations were content to have complete freedom of movement. Arguably, our industrial revolution and empire were based on it. In 1905, when our first immigration legislation, the Aliens Act, was passed and then implemented by a reforming Liberal government, benefits became subject to immigration rules. Since the 17th century immigrants had been required to prove they were born within the British Empire to be eligible for benefits (and this continued to 1962 - hence the recent 'Windrush' crisis). But the Act made it harder to acquire British nationality - which was the other route to becoming eligible for benefits. The Aliens Act was aimed at mainly Jewish refugees and was designed to exclude people from entitlement to the developing unemployment, sickness and pension benefits that were introduced in 1908 and 1911. It followed a period of Jewish immigration by people escaping pogroms and persecution in eastern Europe and was supported by opposition parties and a number of trade unions. Arguably, as a result of this history of anti-semitism, discrimination became an intrinsic part of our welfare state.¹¹

And what about low-paid work? The poor law had been quite effective at pushing people into paid work, but not out of poverty. Beveridge had worried a lot about low pay and insecure employment which he, rightly, saw as the major cause of poverty in the 1900s and worked hard to eliminate these. Later, in the 1970s, Ted Heath proposed the first wage subsidy benefit for low-paid workers, the family income supplement. (That is, if you ignore the 18th century Speenhamland system which drew on parish taxes to top up rural labourers' wages.) Norman Fowler replaced this with family credit in 1988. The next iteration of a wage subsidy was working families' tax credit. Then came working tax credit, which is now being replaced by universal credit. With increasing degrees of complexity, these benefits embody the poverty trap which means it is hard to feel better off even when your earnings increase, because as your earnings rise you lose benefits and face rates of effective taxation far greater than those paid by the highest earners. More and more thought these days goes into seeing how the poverty trap can be alleviated and made less harsh. And with low-paid work in the 21st century now the leading cause of poverty and low-income, it is no wonder that the focus is here.

Compared to wage subsidies, child benefit has been far more successful in providing a platform on which to build earned income (until recently the benefit was not withdrawn at all as earnings increase and only now for the highest earners). Child benefit is still paid to the main carer, but has lost 23% of its value since 2010.

Housing and childcare costs

And housing costs? Famously, Beveridge struggled with the problem of what to do about housing costs because they vary from place to place and so were hard to cover with a flat-rate system. This is a problem which has never really been solved.

Different versions of providing support for housing costs have been tried. They were paid with supplementary benefit for those out of work until the 1980s, then moved to local authorities along with rent and rate rebates for working families in 1988. Now, they have moved back to the DWP as part of universal credit. The move from direct 'bricks and mortar' housing subsidy to payment direct to landlords, fuelling spiralling rents in the private rental market, is well documented. While the cost of helping tenants pay their rent through housing benefit has been regularly pointed to over the decades as a huge state expenditure, in order to justify cuts, it is tenants who have recently borne the brunt of these cuts on the argument that reduced local housing allowances will cause rents to fall. It has not worked and the resulting rent arrears and homelessness is testament to this failure.

If Beveridge were alive today, he would still be worrying about housing costs, but to add to his woes he would now also have to worry about what to do about childcare costs. Again, more direct, supply-side subsidy as part of our crucial social infrastructure would take this issue out of the social security debate, but instead we see an increasingly complex system of reclaiming costs through universal credit. So the debate continues.

The problem with means-testing

And what about means-testing? There is much more we could say about changes during the 1970s, 1980s and 1990s, but we come to the present day. Our system is now dominated by means testing, which would have been anathema to Beveridge. We never improved the generosity of the social insurance benefits he introduced (they did improve under the Wilson and Wilson/Callaghan governments, but not enough) and so have allowed them to be diminished and reduced in scope over the years, with the advent of universal credit and the 2012 Welfare Reform Act arguably the biggest blow to date. The restriction of entitlement to national insurance benefits to one year has reduced their scope even further – again withering away women's independent entitlement. We have institutionalised the aggregation of benefits into benefit or family units, with less and less individual entitlement. And universal credit is now a single payment to one member of the household (though this can be mitigated in Scotland and Northern Ireland), among other things adding to the disadvantages of the system for victims of domestic violence.

The re-emergence of the poverty trap

We have tackled the unemployment trap, whereby policy aims to ensure people are better off in work than out of work more or less unsuccessfully. And we have exacerbated the poverty trap by ramping up means testing for those in paid work. For every extra pound workers earn, they lose 63 pence of universal credit. Attempts to improve the situation have however been based on the assumption that social security policy is just about the maths and trying to achieve a smooth line in entitlements as you move further up the income scale. But this transformation of benefits from a series of entitlements to a maths problem is precisely the thing that is trapping more people in poverty. While the relationship in UC between earnings and entitlements is simple on a graph in UC, the system is nonetheless complex and pretty incomprehensible for many who have to use it. Since few understand how percentages work, or the other complex UC rules, entitlement will remain unfathomable for many.

Universal credit ignores previous attempts to experiment with 'means-testing light' – as in tax credits and pension credit, which aimed to provide a steady income regardless of minor fluctuations in circumstances. Universal credit, by contrast, goes straight in for 'means-testing heavy', which does the opposite. Without any curiosity about, or evaluation of, how successful the tax credits policy has been, we have been launched headlong into a new

system that integrates in-work and out-of-work benefits. Instead of treating those in paid work as different from non-workers (as people who have got a job and so should be largely left alone), they have now been sucked into the complex out-of-work benefits system and may have to attend the job centre or even be subject to in-work conditionality (get a better paid job, or more hours, or else!). The system of monthly assessments and payment in arrears is too clunky and unresponsive for out-of-work claimants – who need a system that responds more quickly to their needs – and far too interfering for those in paid work who frankly haven't time to manage complicated, monthly-assessed, means-tested claims and reporting online, especially if they have children to look after.

Finding alternatives – secure futures for children and families?

No wonder people are turning to alternative ideas, such as a universal basic income, to rescue people from the harshness and complexity of means testing. For all its problems, a basic income is at least a policy whose heart is in the right place. Which leaves the biggest challenge of all – what can a basic income, revived national insurance, or any other proposals, do to eliminate child poverty?

Beveridge began by asking the right questions, the big questions about what our welfare state is for. Despite a lot of evolution in our benefits system since then, we still have not answered them. Children need secure lives and secure futures and at Child Poverty Action Group we intend to set about thinking through what the answers are for today. Our project Secure Futures for Children and Families will be a start.

¹ Beveridge W (1942) *Social Insurance and Allied Services*, Cm 6404, HMSO, p6, para 7.

² Fraser D (1984) *The Evolution of the British Welfare State*, Palgrave Macmillan, p218.

³ Thanks to Pat Thane for her helpful comments and seminal account of the development of our welfare state: Thane P (1996) *Foundation of the Welfare State*, Routledge. All mistakes my own.

⁴ Alcock P (2006) *Understanding poverty*, third edition, Palgrave Macmillan, p10.

⁵ Beveridge W (1942) *Social Insurance and Allied Services*, Cm 6404, HMSO, p9, para 17.

⁶ Beveridge W (1942) *Social Insurance and Allied Services*, Cm 6404, HMSO, p11, para 21.

⁷ Beveridge W (1942) *Social Insurance and Allied Services*, Cm 6404, HMSO, p49, para 107.

⁸ Beveridge W (1942) *Social Insurance and Allied Services*, Cm 6404, HMSO, p51, para 114. See also: Lister R (1994) '“She has other duties” – Women, citizenship and social security', in A. Baldwin and J Falkingham (eds), *Social security and social change: new challenges to the Beveridge model*, Harvester Wheatsheaf.

⁹ Beveridge W (1942) *Social Insurance and Allied Services*, Cm 6404, HMSO, p53, para 117.

¹⁰ See, for example our analysis of cuts where single parents lose on average £2,380 per year compared to couples who lose £900. *The Austerity Generation: the impact of a decade of cuts on child poverty and family incomes*, CPAG, 2017.

¹¹ Cohen S (1985) 'Anti-semitism, immigration controls and the welfare state', *Critical Social Policy*, 5:73, Sage.