

## The State of Welfare



Reform of the welfare state is at the centre of political debate. In a new book, CASE members analyse changes in social policies over the last twenty-five years, trends in spending, outcomes of policies, and impacts on institutions and families.



The stereotypes of both left and right are wrong. There was neither a 'rolling back' of the welfare state after 1979 nor a system exploding out of control. The story has been of frustrated rising expectations and rising demands – with a lid on the budget.



The welfare state took the same share of national income in 1995-96 as 20 years before. But within that restricted total more has been achieved than ever before.



Education outcomes mostly improved, especially for women, for ethnic minorities, and for those gaining qualifications from school. Social class differences narrowed.



Despite repeated predictions, the NHS has not collapsed. It had political priority on its side, and demography to cope with. Its rate of activity has risen, especially since the reforms of the 1990s, efficiency appears to have increased, and there is something close to equality in access to primary care.



Housing policy is now in many ways an adjunct of social security and regeneration strategies. The fall in its political salience partly reflects improving housing standards.



The key trend in personal social services was the shift in the balance of care from public provision and funding to provision by the independent sector and greater private funding through user charges, charitable spending and the family.



Rising social security spending has resulted from unemployment, increasing low pay, family breakdown, and an ageing population. It has become a reactive ambulance, picking up casualties of social, economic and ideological change.



This is generally a positive picture. The problem is that the public expects even better.

### Further Information

This CASEbrief summarises findings from *The State of Welfare: The economics of social spending* (second edition), ed. H. Glennerster and J. Hills, published by Oxford University Press (paperback, £19.99, ISBN 0-19-877590-3; hardback, £40, ISBN 0-19-877591-1; available from booksellers or from the Oxford University Press, 24-hour credit card hotline: +44 (0)1536 454534; email: [book.orders@oup.co.uk](mailto:book.orders@oup.co.uk); p&p for UK and Europe: £2.50 up to order value of £50; free over £50; rest of the world: 10% of total value of order with a minimum of £2.50).

## Introduction

*The State of Welfare* provides a unique consistent and detailed picture of what has happened to the 'welfare state' since 1974. It summarises legislation and policy change over twenty-five years, gives consistent time series in real and volume terms for spending on welfare, and trend figures for outcomes in all the service areas.

The picture is not of simple, overarching trends. The welfare state is not homogeneous; nor is what has happened to its component parts. There was neither a continuous 'rolling back' of the welfare state in the period since 1979 nor a system exploding out of control. Achievements of social welfare institutions have been criticised from left and right, but we report improved educational outcomes, improved housing standards, better performance by the National Health Service, and more resources being redistributed to the poor.

Concern and dissatisfaction with the state of welfare reflect the fact that the non-welfare world has not stood still. Inequality in market incomes, unemployment, and the retired population have grown, increasing demands on the system, while the expectations of those who have prospered have grown. Rising expectations, rising demands, and a lid on the budget have been the story of the last twenty-five years.

## Education

**Howard Glennerster** describes the changing emphasis of government policy:

- Greater emphasis on basic standards of achievement and economic relevance.
- Less emphasis on equity and more on choice and diversity in schooling.
- Pressure to contain spending.
- Growing emphasis on private finance for higher education.

Public education spending fell from 6.5 per cent of GDP in 1975-76 to 4.7 per cent in 1988-89, recovering to 5.1 per cent in 1995-96. However, falling numbers in relevant age groups meant that the volume of resources devoted to each primary aged child rose by a little over a half, and to each secondary child by a quarter. Private education spending tripled as a share of GDP. Outcomes of education policy were largely positive, with improvements following removal of barriers to education and opportunity in the 1960s and 1970s, big labour market changes in the 1980s, and reforms like the National Curriculum and devolved responsibilities to schools.

- Comprehensive education seems to have been associated with rising aspirations and achievements for the average child.
- Since the early 1970s, the proportion of 15-year-olds gaining one or more higher grade GCSEs has risen from 42 to 70 per cent. The proportion of 17-year olds gaining one or more A levels rose significantly.
- Entry to higher education remains class-biased, but there has been equalisation in achievement by those from different social groups at every level.
- In international comparisons, able children do well but the spread of achievement is wide. Maths attainment is relatively poor, but science performance is good.
- Child poverty and school performance remain strongly linked.

- Children from ethnic minorities have been catching up with or surpassing white pupils, and girls' exam performance has overtaken boys at GCSE and A level.

## The National Health Service

**Julian Le Grand and Polly Vizard** argue that the NHS was not, despite the rhetoric, endlessly subject to crisis over the period. Its organisation changed greatly, not least through the introduction of the controversial internal market but, despite predictions to the contrary, the Service did not collapse. Its rate of activity rose; according to at least one measure, its efficiency seems to have increased; and there was no indication of worsening inequity in service delivery. Overall, mortality health outcomes improved, although one form of social inequality in health worsened.

- Public spending on the NHS rose from 3.8 to 5.7 per cent of GDP.
- The volume of resources rose by 1.8 per cent annually over the Conservative period, compared to 3.9 per cent under the previous Labour Government.
- This was faster than the 1.2 per cent annual increase in demand from demography and medical advance. But as real incomes rose expectations rose faster still.
- The NHS activity index rose annually by 2.4 per cent from 1980-81 to 1989-90, but by 4.1 per cent from 1991-92 to 1995-96, after the internal market. The annual efficiency increase rose from 1.6 per cent pre-reform to 1.95 per cent post-reform.
- Overall, there is something close to equal access for equal need between social groups for primary care at least.
- Satisfaction with the NHS declined throughout the 1980s, increased immediately after the reforms of the early 1990s, but has since declined to its 1980s levels.
- Life expectancy rose throughout the period and inequality in age-at-death for the whole population declined. But social class inequalities in mortality for males aged 20-64 widened. Average levels of morbidity increased: class inequalities in morbidity remained static.

The authors conclude that, despite ideological differences and organisational change, there was an essential continuity in political and economic support to the NHS. This suggests that what the NHS needs to survive is the political will to support it.

## Housing

**John Hills** argues that housing policy is mainly now an adjunct of social security and city regeneration strategies. Over the period, the total of net public spending on housing, Housing Benefit, and mortgage interest relief remained within the band of £18-22 billion (at 1995-96 prices), falling as a share of GDP. Its composition changed as cuts in general subsidies were matched by increased Housing Benefit until the end of the 1980s, after which Housing Benefit costs rose rapidly, and cuts in net capital spending were offset by the rising cost of mortgage interest relief until 1990-91, after which the cost of relief fell while Housing Benefit rose.

Part of the fall in political salience reflects general improvement in housing standards, with a rapid improvement in the balance between households and fit dwellings up to 1981, but a slow deterioration in the 1980s and early 1990s. Other outcomes include:

- Owner-occupation increased its share of the stock from 52 to 67 per cent in 1995.
- Tenures became sharply polarised by income. By 1994, 76 per cent of those in council housing were in the poorest two-fifths, compared to 51 per cent in 1979.
- Households lacking basic amenities fell from 17 to 1 per cent between 1971 and 1991. Fewer people lived in crowded conditions in 1994 (13 per cent) than in 1974 (22 per cent). In general, improved conditions affected all social groups, but crowding increased after 1990, especially for the poorest fifth.
- Overall satisfaction levels rose between the 1970s and 1990s. Council repairs continued to cause dissatisfaction, and unhappiness with neighbourhoods rose.
- Lettings to new social tenants rose between 1984-85 and 1994-95, but acute problems of access grew in the 1980s, with more in temporary accommodation and sleeping rough, but matters improved in the first half of the 1990s.
- Housing became more expensive relative to incomes for both owners and tenants. Owner-occupiers costs fluctuated widely, leading to a crisis in the early 1990s with high mortgage arrears, repossessions and negative equity (since receded).

## Personal social services

**Maria Evandrou and Jane Falkingham** suggest the key trend in the PSS was growth of private provision, especially after 1979. This reflected perverse social security incentives in the 1980s, but explicit policy shifts in the 1990s. Some policies continued across governments, particularly a 'reactive' approach to child abuse, and shifts to non-institutional care and priority groups. Community care reforms created a 'market for care'. In public spending the sector appeared to do comparatively well:

- Real spending rose two and a half times from 1973-74 to 1995-96, a rise from 0.8 to 1.2 per cent of GDP. The major increase came in 1993 when the community care reforms transferred responsibilities from social security to local authorities.
- Growth in PSS spending exceeded official estimates of rising needs. Unit costs increased across the PSS and efficiency appears to have declined in the 1980s.
- Spending on community care services grew faster than on residential care.
- Local authorities went from being dominant to minority providers of residential care for the elderly – by 1995 providing 50,000 out of 230,000 places, compared to 100,000 out of 130,000 in 1974.
- There was an explicit shift from health to social care with the closure of long-stay institutions for people with learning disabilities and mental health problems. It is unclear whether community care services expanded enough to cope with this.

Judging outcomes is complex, and there are no systematic measures of quality or satisfaction over time. Public services only partly kept pace with sharply rising demographic demand. The balance of care has shifted from public provision and funding to provision by the independent sector and greater private funding through user charges, charitable spending and the family. The majority of care is supplied informally. One adult in six provides some support to frail, elderly people, although there is variation in the type of care. 1.7 million care for someone in their own home, and another 1.7 million spend 20 hours or more a week providing care or support.

## Social security

Martin Evans argues that the rising social security budget did not result from increased generosity, but from unemployment, increasing low pay, family breakdown, and an ageing population. Social security was the 'residual legatee' of social change.

- Social security spending (excluding Housing Benefit) rose from 8.2 to 11.4 per cent of GDP between 1973-74 and 1995-96. In real terms it more than doubled.
- Within this total, spending on means-tested benefits grew by 600 per cent, on the unemployed 300 per cent, on the sick and disabled 275 per cent.
- Despite this, private provision has grown. While the numbers of employees in occupational pension schemes has stayed the same (around half), the numbers retiring with occupational pensions rose rapidly.
- Helped by tax incentives, the number of personal private pensions rose from 600,000 in 1974 to 20 million in 1995. Tax expenditures, rebates and incentives to occupational and private pension schemes totalled £20 billion in 1994-95 (but with some offset from later tax collected on pensions).

Cash benefits acted as a brake on growing inequalities in market incomes, forming a rising share of the poorest families' incomes, but reliance on it has also contributed towards disincentives to work.

- The number of people living in families relying on means-tested support of some kind rose from 8 to almost 21 per cent of the population between 1974 and 1994.
- Efficiency has improved in terms of replacement rates and greater take-up.
- Despite this, benefits are not noticeably more targeted on those with low income and poverty has grown: the numbers with below half average income rose from 4.7 million in 1974 to 11.2 million in 1993 (before housing costs).

The author concludes social security has become a reactive ambulance, picking up casualties of social, economic and ideological change. It would be perverse to blame ambulances for motorway accidents, even though they always appear at them.

## Welfare with the lid on

The table below summarises real spending on the welfare state and its share of GDP. Welfare spending rose from 50 to 60 per cent of government spending, and in real terms by three-quarters. It rose from 22 to 26 per cent of GDP between 1973-74 and 1976-77, but since then has fluctuated. It took the same share in 1995-96 as twenty years before. Despite rising demands, its total was remarkably constrained compared with earlier periods – 'welfare with the lid on'. Against this background, Howard Glennerster asks where is the welfare state to go, caught between rising expectations, rising demands, rising costs and an unchanging share of the nation's resources?

- **Take off the lid?** Demographic pressure is less for the UK than its competitors, but expectations are rising, and there is little political enthusiasm for higher taxes.
- **Get more out of the pot?** The 'quasi-market' reforms of the 1980s did to some extent succeed in this, but further progress seems unlikely. Decentralisation and greater use of public-private partnerships look more hopeful.

- **Concentrate on essential ingredients?** The state could retreat to a tighter core, but protection of the poor, promotion of social inclusion, and problems of private insurance limit the areas available for retreat.
- **Stop stoking the fire under the pot?** Measures like priority for education and ‘welfare-to-work’ may in the long run reduce pressures, but have short-term costs.
- **Use more pots?** Varying mixes of finance, provision and regulation give a richer variety of means of achieving welfare aims than the system’s founders imagined.

	<b>73-74</b>	<b>76-77</b>	<b>79-80</b>	<b>83-84</b>	<b>89-90</b>	<b>93-94</b>	<b>95-96</b>
<b>£ billion (95/96)</b>							
Education	27.5	29.9	27.5	28.5	31.7	34.6	36.1
Health	18.3	23.7	23.6	27.1	32.2	38.9	40.7
PSS	3.6	4.8	4.6	5.0	6.3	7.8	8.9
Housing	11.9	17.3	14.6	7.7	6.0	5.7	3.9
Housing benefits	3.9	2.9	2.6	4.8	6.1	11.1	12.2
Social security	38.7	46.2	49.4	60.1	61.4	79.7	80.8
<b>Total</b>	<b>103.9</b>	<b>124.8</b>	<b>122.1</b>	<b>133.1</b>	<b>143.6</b>	<b>177.8</b>	<b>182.6</b>
<b>% of GDP</b>							
Education	5.8	6.2	5.2	5.3	4.8	5.2	5.1
Health	3.9	4.9	4.5	5.0	4.8	5.8	5.7
PSS	0.8	1.0	0.9	0.9	0.9	1.2	1.2
Housing	2.5	3.6	2.8	1.4	0.9	0.9	0.6
Housing benefits	0.8	0.6	0.5	0.9	0.9	1.7	1.7
Social security	8.2	9.6	9.4	11.2	9.2	11.9	11.4
<b>Total</b>	<b>21.9</b>	<b>25.9</b>	<b>23.3</b>	<b>24.8</b>	<b>21.6</b>	<b>26.6</b>	<b>25.8</b>

### *About the research*

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