Poverty and the welfare state

Dispelling the myths

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Executive summary

1. Introduction

- The politics of welfare are shaped by what people believe. Debates about poverty and welfare in Britain are full of myths. This pamphlet tries to correct some widespread misconceptions.
- Many of the current myths are throwbacks to the eighteenth century. As a result, social policy has come to be driven by the very policies that the welfare state was supposed to replace.

2. Understanding poverty

- There is not much agreement about the idea of poverty – numerous definitions are used by different researchers and policymakers.
- Approaches used to measure poverty include benefit receipt, income levels and indicators of deprivation; the government uses multiple indicators, and is currently advocating its own measure based on deprivation.
- Different measures suggest that at any one time up to quarter of the UK population may be poor. Most people are on low incomes at some point of their lives.
- Explanations of poverty can be individual, familial, subcultural or structural. Currently the trend is away from structural explanations and back towards individual and familial explanations.

3. The problems of the poor

- Poverty is not a problem of the behaviour of poor people – although poor people do act differently because they are poor. It is not because poor people have too many children. It is not the result of racial differences.
- The government believes there is a large hard core of persistently poor people, that poverty is long term and that it is passed from generation to generation. This is not consistent with the evidence. People move through dependency, and most poverty is temporary. Poor people do not stay in poverty indefinitely.

4. The welfare state

- The welfare state was an attempt to break away from the stigma of the Poor Law.
- It was not designed for the poor; it was supposed to offer social protection for everyone, to prevent people from becoming poor.

5. The costs of welfare

- The welfare state has not been especially costly in comparative terms, and there is no good evidence to suggest that it has been an economic burden.
- Scare stories about costs spiralling out of control and large sums lost to abuse are greatly exaggerated.

6. Welfare dependency

- Many arguments about dependency and the misconduct of the poor are survivals from the days of the Poor Law.
- People are rarely better off on the dole. The welfare state has never offered especially generous benefits; though benefits were meant to be adequate, they often have not been.
- The argument that welfare encourages dependency has been around for over 200 years, and has repeatedly been disproved by changes in the economy.

7. Conclusion

- Poverty is not the moral, cultural or social problem of a permanently excluded underclass, but an economic risk that affects everyone.
- The purpose of the welfare state should not be to target programmes more carefully on “the poor”, but to ensure that there is a general framework of resources, services and opportunities which are adequate for people’s needs, and can be used by everyone.

1
Introduction

Understanding myths

The idea of a “myth” is used in a special way in social science. Georges Sorel used the idea to emphasize the importance of perceptions in framing beliefs and forming policy (1).

Debates about poverty and welfare in Britain are full of myths. Part of the object of this pamphlet is to challenge some of the more obvious ones. Unfortunately, the situation is so complex and uncertain that it can be difficult to say with confidence what the right answer is. There are very few indisputable, unassailable “facts”. It is much easier to be confident about what is wrong. The best we can look for is to get a little nearer the truth – to replace myths with half-truths.

Poverty and the welfare state: a fairy story

A famous cartoon of the 1940s shows William Beveridge, the founder of the welfare state, dressed as a fairy, waving his magic wand over a demonic-looking Giant Want. The story goes like this. The welfare state was intended to lift people out of poverty. It made extraordinarily generous provisions, delivering services of such quality that Britain became the envy of the world. Governments found, however, that welfare couldn’t lift people out of poverty. People got used to living an easy life on benefits; they became dependent. Poor, inadequate parents had poor, inadequate children, who went on to benefit in their turn. Now the hard core of claimants – an “underclass” – refuse to work, and abuse the benefits system, taking everything they can get, often fraudulently. This has made the welfare system an impossible economic burden.

This bears little resemblance to what actually happened. The welfare state was not intended to lift people out of poverty; it was supposed to do something else entirely. It did not offer very generous benefits. Apart from pensioners, it is rare for people stay on benefit for more than a few years.

Most children born into poverty cease to be poor before long. There is no evidence of a dependency culture. The cost of welfare in Britain is rather less than in other, economically more successful countries.

True or not, however, the politics of welfare are shaped by what people believe. Many of the myths about poverty and welfare in Britain have survived since the eighteenth century: for example, that only pensioners nowadays are ashamed to claim benefits, that unemployed people are better off on the dole, that welfare encourages dependency, or that poor people need to be punished to deter them from the delights of claiming welfare benefits.

In the process, something unpleasant has happened to the welfare state. Increasingly, social policy has come to be driven by the very policies that the welfare state was supposed to replace.

2

Understanding poverty

Defining poverty

There is not much agreement about the idea of poverty, and commentators on the subject tend to express themselves in very different terms.

For some, poverty is the inability to obtain the essentials of life; for others, a matter of low income; for others again, a problem of social inequality. There are at least eleven different clusters of meaning, overlapping but separable (2).

They include definitions concerned with people's **material conditions**:

- *basic need* – lack of such things as food, clothing, fuel or shelter
- a *pattern of deprivation*: poverty is a set of complex, interrelated problems
- *limited resources*: not having enough money or command over resources to pay for essentials

There are definitions concerned with people's **economic circumstances**:

- a *low standard of living*: poverty is defined by long-term, limited life style
- *economic inequality*: poverty consists of serious disadvantage, or "economic distance" from the rest of society
- *class*, which is a form of disadvantaged economic position.

The emphasis on disadvantage and social class shades into ideas of poverty based on **social relationships**. Poverty can be seen as:

- *social exclusion*: the EU defines the poor as "persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live" (3)
- *dependency on benefits*: as equivalent to claiming social assistance
- *lack of basic security*: poverty is seen as a struggle for everyday existence and lack of entitlements: famines, Sen and Drèze argue, result not from lack of food, but because people have no rights to the food which is there (4). Lack of rights is fundamental to poverty.

There is also a **normative** view of poverty:

- people are held to be poor when their material circumstances are deemed to be *morally unacceptable*

Differences in meaning can lead to muddled, and sometimes contradictory policies. Improving resources does not guarantee social inclusion. Measures to promote social equality do not necessarily help the worst off. Reducing dependency can lead to a reduction of entitlement or provision for needs.

It is not appropriate simply to throw away inconvenient or contradictory definitions of poverty: the issues that are raised here are all potentially important in their own right. For effective policy on poverty, however, it is important to be clear about what the issues are that have to be addressed, and what a policy is supposed to achieve.

Measuring poverty

The central problem of identifying who is poor is that there is so little agreement about the basic problems we are trying to define. There are no indisputable "facts"; there are only hints, pointers and half-truths.

Measuring complex problems is usually done, in social science, through the use of "indicators". The term "indicators" was chosen to emphasize that the kinds of official statistic produced for this sort of exercise were not conclusive proof of anything; they were signposts. Indicators do not have to be precise, but they have to point the way; over time, it should be possible at least to say whether problems are getting better, worse or staying about the same. Indicators need to be accessible, reasonably comprehensible and persuasive.

Three types of indicator

Three main types of indicator are used in discussions of poverty. Three main types of indicator are used in discussions of poverty. The first is **the number of people who are receiving basic benefits**. Because means-tested benefits are aimed at people on low incomes, and because they have been held to a very low level, entitlement to benefit is a useful guide to the numbers of people living on very low incomes. For many years, this was taken as an acid test of poverty, but it is not necessarily a good test: if benefits went up, so did the numbers of people who were entitled, and poverty appeared to increase. It is helpful, at least, in identifying many people on very low incomes, and there is a strong association with low standards of living.

In November 2001, there were 1.7 million pensioners, 867,000 single parents and 1,044,000 disabled people receiving Income Support, and 649,000 unemployed people receiving the income-related Job Seeker's Allowance (5) – a total of **4.28 million**. These figures are reasonably accurate (though not as precise as they might at first appear; the Department for Work and Pensions estimates the numbers of claimants, rather than counting them exactly). They can also be misleading. For one thing, the rates that are used to gauge entitlement are different for different groups: pensioners are rather more generously treated. For another, the figures relate only to the number of people who receive benefit, which is rather lower than the number of people on similarly low incomes. There are probably more than half a million other people who are entitled to these benefits but do not claim them, which would bring the total up towards **10 million**.

A second commonly used indicator is based on **low income**. The UK series appears annually under the title *Households Below Average Income*. In some countries, low income is tested against a notional poverty line; in Europe, it has become common to use a standard based on European research, which identifies people as poor if they live on less than 50 per cent of the median average income. The median income is the level of income where half the population are above the figure, and half are below it. UK figures used to use the mean average, but the mean is a moving target; unlike the mean, the median does not change if the incomes of poor people, or rich people, go up or down. 50 per cent of the median is a rough figure – researchers have experimented with 40 per cent, 50 per cent and 60 per cent. UK figures currently refer to 50 per cent, 60 per cent and 70 per cent, with a preference for 60 per cent. This represents, in the view of the researchers who developed the measure, a useful indicator of “economic distance” (6) – the adequacy of income relative to other social standards.

In 2000/01, **12.9 million** people lived on less than 60 per cent of the median income after housing costs (7).

The third test is the examination of **deprivation**. The work of Professor Peter Townsend (8), and subsequent studies for the *Breadline Britain* programmes (9), have sought to identify poverty in terms of people’s access to essential goods, services and amenities. The approach attempts to gauge what people think of as essential, and to see how many people are unable to afford those things.

A recent survey for the Rowntree Foundation estimates that 26 per cent of the population (approximately **14.5 million** people) are poor. The findings suggest that

“Roughly 9.5 million people in Britain today cannot afford adequate housing conditions. About 8 million cannot afford one or more essential household goods. Almost 7.5 million people are too poor to engage in common social activities considered necessary by the majority of the population. About 2 million British children go without at least two things they need. About 6.5 million adults go without essential clothing. Around 4 million are not properly fed by today’s standards. Over 10.5 million suffer from financial insecurity.” (10)

A composite picture

There is then no single definitive figure for the extent of poverty in the UK. From a combination of these different approaches, however, it is possible to say something about the pattern and distribution of poverty in the UK.

The measures reviewed here suggest that **up to a quarter of the UK population may be poor**, though this depends on how the figures are calculated. We can say that the people on the lowest incomes in the UK are unlikely to be engaged in the labour market. This is the basis for the government's emphasis on work as the principal means of escaping poverty. (The main reservation is that people on benefit do not necessarily have the option of working.) The largest categories of people who are vulnerable to poverty are young single people who are not working; families with young children; female single parents; people with disabilities; and older pensioners.

Although these groups are more vulnerable, it is not clear that any group is immune to poverty. **Most of the population is likely to have been on a low income for at least some time in the last few years**. According to official statistics, 60 per cent of the population spent at least one year in the bottom 30 per cent of the income distribution between 1991 and 1999 (11). Most of the population is liable to be on a low income for some time in the next few.

The make-up of the picture has changed radically in recent years. In the 1960s and 70s, the largest category of poor people were pensioners (12). The position of pensioners has improved steadily since that time, but the situation of families with children has not improved, and in the 1990s there was a very marked deterioration. Currently, 3.9 million children – about a third of all children – live below 60 per cent of median income (13). Most of these children are in families without work, but about 1.5 million live in families with low earnings, where the main earner is in the bottom quartile of the earnings distribution (14).

How the government measures poverty

There is no "official" measure of poverty in the UK, and the current government has used several different methods. One of the methods used, principally in the annual report *Opportunity for all* (15), is the selection of **a bank or range of different indicators**, which give a general direction of movement. This is a very sound approach, but some commentators have complained that the absence of simpler headline figures makes the material less accessible to the media and the general public.

Official statistics when the government took office referred to 50 per cent of the mean average. This was not a particularly well-founded figure, and it was later converted to **60 per cent of the median** as the nearest equivalent. The effect of using the median is to compare poor people with the mid-point of the population, rather than with higher income brackets. Roughly speaking, the top bracket of the income distribution consists of higher paid workers, the middle bracket of lower paid workers, the bottom bracket of households where no-one works. This means that the median reflects the position of lower-paid workers. The argument for using the median depends on the view that increases in the highest incomes have no effect on the social position or the economic distance of those on the lowest incomes. This is certainly the Prime Minister's view: in an interview with *Newsnight* during the last election campaign, he argued that there was no problem in the widening gap between the rich and the poor (16).

Recent figures refer to 60 per cent of the median **after housing costs**; the figures before housing costs show rather fewer children in poverty, 2.7 million rather than 3.9 million (17). It can be argued that the lower figure, before housing costs, is more meaningful. If the purpose of using the median is to point to "economic distance", housing is one of the principal elements to consider: unlike the costs of food or fuel, housing costs are determined relatively, in competition with others.

Currently the government is canvassing the idea of a different kind of standard, based on the measure of **"consistent poverty"** used in the Republic of Ireland (18).

Consistent poverty is measured by the relationship of low income to deprivation. The main needs taken into account are food, fuel, clothing and debt. Housing deprivation is not included, which is regrettable: housing is basic in its own right, but it is also fundamental for social inclusion and opportunities, including education, community and employment.

It is difficult to predict how many people will be identified as "poor" by a measure like this, because it depends what is included, but when compared with the Rowntree surveys it seems most likely to reflect the 8 million or so unable to afford certain household items, and so to report a rather lower figure than that currently in use.

Explaining poverty

Explanations for poverty can be classified into four main schools of thought.

Individual explanations try to explain poverty in terms of the personal characteristics of poor people. Poverty is seen as the result of laziness, personal inadequacy or some kind of shortcoming or handicap; people are poor because they have made the wrong choices, had children at the wrong time, failed to work and so forth.

Familial explanations suggest that poverty runs in families, either through genetic inheritance or through inheritance, upbringing and education. This was central to an argument made by Sir Keith Joseph in the 1970s, described as the "cycle of deprivation" (19). Although this argument was comprehensively demolished by research evidence, the argument is still on the scene politically today. The government's National Action Plan for the UK, for example, declares:

> "Breaking the cycle of deprivation and ending the inter-generational transmission of disadvantage from parent to child must lie at the heart of any effective strategy for tackling poverty and social exclusion." (20)

Subcultural explanations also see poverty as a pattern of behaviour, but one that is brought about by circumstances rather than personal choice. The best-known arguments are probably those relating to the "culture of poverty" of the 1960s and the "underclass" of the 1980s, but both of these concepts have been tinged with sensationalism and the moral condemnation of the poor.

The strongest case has been made about the relationship of economic marginality and family structure. Where men are not in stable economic circumstances, it has a devastating effect on their social relationships: the men cannot fulfil conventional social roles, especially the role of the breadwinner, and women cannot afford to commit themselves permanently to such men. William Julius Wilson, in the United States, has argued that economic factors are fundamental to family breakdown (21). The marginality of men implies higher rates of relationship breakdown, illegitimacy, serial relationships rather than stable partnerships, and fragile family structures.

Structural explanations identify poverty as the product of the society in which it takes place. This is often interpreted in terms of social divisions, class, status or power, but all that is needed for an explanation is inequality. Wherever there are inequalities, someone will be at the bottom; and in an economy which does not produce enough work for everyone who wants it, or where the labour market is divided between people in secure employment and others in precarious employment, someone is going to be left out. The wider the range of inequality, the more likely it is that people at the bottom will be poor.

In the 1940s and 1950s, unemployment was largely seen as a **structural** issue. The classical economics of the inter-war period had been discredited by mass unemployment and repeated industrial slumps. It was widely accepted that unemployment was wasteful, and it was less wasteful to create employment, paying people to do something, than to pay for benefits, which was paying them to do nothing. Governments accepted responsibility for the health of the economy. Where there was no work, it was better to move work to workers, taking advantage of the existing structures of housing, transport and community, rather than writing off existing cities.

With the resurgence of **individual** and **familial** explanations, most of this has gone by the board. The current government's primary response has been the development of "welfare to work" – a set of related programmes, including various "New Deal" programmes and the unification of benefit and employment services in "ONE". "Welfare to work" emphasises the efforts and responsibilities of individuals to find work, not the responsibility of a society to develop it.

3

The problems of the poor

The central myth about poverty is that the problem is the poor. Poor people are seen as bearers of multiple social, cultural and psychological afflictions, or responsible for defective moral judgments, like drug addiction or unplanned pregnancy.

The American conservative Charles Murray is famous for the notion of the "underclass": "I do not mean people who are merely poor, but people at the margins of society, unsocialised and often violent." (22) The Prime Minister has himself directly taken up this term (23), or used his own vocabulary of "social exclusion", which he defines as

> "a short hand label for what can happen when individuals or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health and family breakdowns." (24)

There are several strands that need to be disentangled. The first point, which has to be admitted, is that poor people **act differently**. Poverty means that people who are poor lack the diets, amenities, opportunities and scope for participation in society that others have (26). Living differently is part of what poverty is – poor people socialise less, and they have a narrower range of experiences. But this does not mean that poor people are different from the rest of us – on the contrary, the figures suggest that most of us are likely to be on low incomes at some point in our lives, because of divorce, unemployment, disability or old age.

The second argument is that individuals have a combination of **linked problems**. The characteristic pattern of poverty has been called a "web" of deprivation. Like a fly in the web, pulling free with one limb only serves to enmesh another (27). One of the means by which poverty can be identified is a pattern of deprivation – combinations of different deprivations. This is not the same, though, as the statement that poor people are "cut off from society's mainstream". Again, it is striking that so many people seem to go through poverty, particularly during childhood, without becoming alienated from society.

Peter Mandelson, the minister initially responsible for setting up the Social Exclusion Unit in the Cabinet Office, has talked of

"… three million people living in the worst 1,300 housing estates expressing multiple deprivation, rising poverty, unemployment, educational failure and crime ... They are today's and tomorrow's underclass, shut out from society." (25)

The third issue relates to the problems of **poor areas**. There is a common confusion between the problems of areas and the problems of poor people. Most of Britain's major cities have concentrations of poorer people living in depressed areas. It is possible, however, to exaggerate the importance of this trend. Poverty is widespread. Most poor people do not live in the poorest areas. Most people who live in poor areas are not themselves poor. The problems of areas are important because they affect everyone living in the area, poor or not. There is no evidence, however, that people living in poorer areas have significantly different values to anyone else (28).

The fourth issue relates to **social problems**, including the disintegration of the family. Marital breakdown is clearly a consequence of poverty and unemployment (29). Unemployed males are unable to act in the traditional role of the breadwinner; divorce is often in the woman's economic interests. There is less marital breakdown when employment prospects improve (as it has done in recent years in the US). The main issue here is structural: long-term, secure employment is essential for stable family lives.

Poverty and early pregnancy

One of the classic myths of poverty is that poor people have too many children. Currently, most children are likely to be in low income families, and it can be argued that having children is economically unwise in almost every case. There is clearly a problem here, but it is not does not follow that the problem rests with people's decision to have children. Other European countries see families as essential to the future of a society, but in British politics there is a tendency to treat having children as a personal peccadillo or lifestyle choice. Nowhere is this more visible than in the condemnation of teenage pregnancy.

Early marriage, and pregnancy in the teenage years, were normal fifty years ago. Today the **Social Exclusion Unit** argues that:

"Teenage pregnancy is often a cause and a consequence of social exclusion. The risk of teenage parenthood is greatest for people who have grown up in poverty and disadvantage or those with poor education attainment." (30)

The government takes the view that single motherhood in teenage years is primarily attributable to irresponsible sexual activity (31). This is a misunderstanding. The young women who do become teenage mothers are not having babies by accident. For many, if not most, people, having a family is a fulfilling, rewarding and desirable option; the main issue is when it should happen. Rich young women also have sex, and they also get pregnant. What they do not do, in anything like the same proportion, is have the baby afterwards (32). Poor young women have much less chance of higher education, and they do not have many career prospects. They are likely to think that if they do get pregnant, they wanted eventually to have a baby, and they may as well have a baby now as later. Having a baby in these circumstances is a positive choice. That is what they tell social researchers (33); but it is an answer that governments seem to find impossible to believe.

Poverty and race

In the United States, "poverty" is often closely identified politically with race; much of the discussion of the "underclass" and welfare dependency from that country is overlain with implicit, and sometimes sinister, references to racial problems. The same is not directly true of the discourse in Britain, but there is a tendency to conduct a similar debate in indirect, euphemistic language.

A **Social Exclusion Unit** report on "Minority ethic issues in social exclusion and neighbourhood renewal" declares that

"People from minority ethnic communities are disproportionately represented in deprived areas. Fifty-six per cent live in the 44 most deprived local authorities in the country. And those 44 most deprived local authority areas contain proportionately four times as many people from minority ethnic groups as other areas." (34)

On the same page, the report suggests that

"… overall, people from minority ethnic communities are more likely than others to live in deprived areas and in unpopular and overcrowded housing. They are more likely to be poor and to be unemployed, regardless of their age, sex, qualifications and place of residence." (35)

This is commonly juxtaposed with reports of marginalisation. The **White Paper on Immigration and Nationality** comments that last summer's riots

"… painted a vivid picture of fractured communities, lacking a sense of common values or shared civic identity… " (36)

Stated in these bald terms, the negative effects of associating race with poverty become clear: the debate on race begins to look a lot like the discussion of the irresponsible poor in other terms.

A strong association has been made between minority ethnic groups with urban deprivation. It is true that minority ethnic groups live more often in deprived urban areas, but those who do so are not necessarily poor themselves. The *Economist* noted that

> "in Leicester, the British city with the highest proportion of Asian-origin people, the ward with the highest unemployment rate (12.3 per cent) is 97 per cent white, while the ward with the highest Asian population (67 per cent) has 6.7 per cent unemployed" (37).

It is a major challenge for urban policy to maintain sustainable, economically active communities. In many cases, the minority ethnic population is the best hope deprived areas have for regeneration.

Similarly, the suggestion that “minority ethnic groups” are vulnerable to poverty may be true, but it is potentially misleading.

Two minority ethnic groups, people of Pakistani and Bangladeshi origins, are especially likely to be poor. They account for about 800,000 people in the UK, less than a third of the principal minorities. Larger minority groups, such as people originating from India and the African Carribean, are more vulnerable to poverty than the majority population, and are liable to have lower incomes. But most of them are not poor. Other groups, including East African Asians and Chinese populations, have profiles more similar to that of the rest of the population (38).

The widespread persistence of racial disadvantage, and the incidence of poverty among certain groups, is worrying in itself. Poverty is an important issue for those concerned with race and ethnicity. But it is not generally true that minority ethnic groups are poor. It is not true that membership of a minority group is a passport to poverty, unemployment or overcrowding. And it is not true that poor people are likely to be from ethnic minorities. If there are 13 million poor people in Britain (though this depends on how the figures are counted), poverty among minority ethnic groups probably accounts for less than one poor household in eight. Minority ethnic groups constitute only a small part of the pattern of poverty in the UK, and for the understanding of poverty race is not a central issue.

The dynamics of poverty

Alastair Darling, until recently Secretary of State for Work and Pensions, says that a third of children are born into poverty, and that “if we do nothing, these children will not only be born poor but they will live poor and die poor” (39).

This is not true. According to the figures from *Households below average income*, 39 per cent of all children were found in the lowest part of the income distribution for at least one year between 1996 and 1999, and 19 per cent out of 39 per cent remained poor for all four years (40). That means that half of them did not.

When Keith Joseph set up a research programme to investigate the "cycle of deprivation" he had made speeches about, the evidence produced firmly contradicted all the central propositions (41). Poverty did not run in families; it did not recur from parents to children; most poor children did not grow up to be poor adults; and, for all the talk of "problem families" that had been poor for generations, it did not happen (42).

Social science is never allowed to stand in the way of a good myth, however, and regardless of the evidence, the belief is still found repeatedly in government documents. The recent DWP consultation on poverty measurement states that

> "There is a clear intergenerational transmission of poverty through worklessness. Those people growing up in a family experiencing unemployment are about twice as likely to have prolonged spells themselves. Those from poorer backgrounds are significantly more likely to end up not in work than those with higher income fathers." (43)

This is a mistake. There is evidence of disadvantage: people who are poor are more likely than others to come from poor families. Being "more likely" does not mean, however, that poor families make people poor: it means only that the risk for poor families is greater. It is certainly not "clear intergenerational transmission".

David Blunkett, now the Home Secretary, wrote "You can give the poor some money for a period of time but they still remain poor" (44).

This is false. The dependent population below retirement age is not stable, dependency on benefits is periodic, and people do not remain poor indefinitely (45). Poor people don't stay poor. The point of giving them money is to tide them over.

People move through dependency, and most poverty is temporary (46). Poverty is generally an experience for part of people's lives, not for all of it. Few people under retirement age who have low incomes now have been poor throughout the last five years. Relatively few people who are unemployed stay unemployed continuously. Most young people who are currently poor will either obtain work, or settle down with someone else who is not poor. Single parents cease to be single parents if they remarry or if their children leave home.

As Anthony Giddens, an influential adviser to the government, has said,

> "A surprising number of people escape from poverty – but a greater number than used to be thought also experience poverty at some point in their lives … Few even among the chronic poor just passively accept their life circumstances." (47)

Poverty is rarely permanent, but it is a continuing risk for most of us. Poverty is not something that affects a minority of society for all of the time, but most of society for some of the time. Social security is essential to protect us against poverty.

4

The welfare state

Contemporary perceptions of the welfare state are depressingly negative. Tony Blair has commented that the welfare state is "associated with fraud, abuse, laziness, a dependency culture, social irresponsibility encouraged by welfare dependency". (48)

These misconceptions need to be taken on. Their persistence seriously distorts political discussions of the welfare state today and inhibits the development of a reform agenda that truly takes forward the idea of the welfare state, rather than reverting to the regime of the Poor Law.

A brief history

The "welfare state" was founded in 1948. Although it built on the services that had existed before the war, it was seen as a radical departure from the system that came before it.

The Poor Law

The Poor Law had existed for three hundred and fifty years. It provided support for poor people who were unable to support themselves. For many nowadays, the image of the Poor Law is captured by *Oliver Twist*, Dickens' protest against the inhumanity of the reforms of the 1830s. The Poor Law in Victorian times was based on two core principles:

- the **"workhouse test"** – the insistence that people should only receive relief in the workhouse, and
- **"less eligibility"** – that paupers should not be better off than labourers.

The conditions in the workhouse could not be worse than those outside it, and the Poor Law came to rely on deterrence and the stigmatisation of poor people as a way of policing the boundaries. As later social services were developed, governments attempted to place them outside the Poor

Law, trying to avoid the association of new policies with the punitive, minimal treatment offered by the old system.

Beveridge

The Welfare State was a determined attempt to break away from the taint of the Poor Law. It offered social protection to everyone, as a right of citizenship. It aimed to offer services at the best level possible (49). It was going to offer a network of services, providing a foundation of support for everyone. Above all, the Welfare State was not going to be like the system that had come before it. It was not just for poor people, and it was not going to be provided at a minimal level.

The Beveridge report on social insurance was seen by many as the cornerstone of the welfare state – more because of its rhetoric than because of the proposals (50). Beveridge wrote of the battle against the “five giants” of Want, Idleness, Ignorance, Squalor and Disease. He proposed a “comprehensive” system of social insurance, which was seen as covering people from cradle to grave.

The Beveridge scheme remained at the core of the social security system for over forty years. Unfortunately, it had serious deficiencies. As an insurance scheme, it was unable to cover many important contingencies where people were unable to contribute. It failed to take into account certain categories of need, especially disability, divorce and long-term unemployment. And the benefits it introduced were not adequate, partly because of housing costs, but mainly because they were held to an unreasonably low level.

The scheme was gradually eroded, simply because it did not offer an adequate response to the needs it was supposed to deal with, and resources were diverted to other approaches. The social security system became progressively more reliant on means-tested benefits, aimed at the people who were poorest.

Poverty was “rediscovered” in the 1960s. The euphoria of the early days of the welfare state induced complacency about its achievements. Social research on pensioners in particular, and then on other groups of benefit claimants, dispelled the idea that poverty had been conquered.

The response of governments was increasingly to focus on the particular needs of the poor. From the 1970s onwards, a series of selective benefits were introduced, aimed specifically at people on low incomes. When benefits were retrenched, the benefits that bore the brunt of that retrenchment were universal – benefits like sickness benefit, maternity grant, death grant, and earnings-related unemployment benefit. The basic means-tested benefit, Supplementary Benefit, was reformed more than once; it became Income Support in 1988. It is Income Support (and its more recent offshoot, the Job Seekers’ Allowance) that attracts the bulk of criticism about benefits – accusations of dependency, fraud, and unwillingness to work.

The welfare state and poverty

Why, despite the welfare state, are people still poor? The persistence of poverty is not something that social protection alone could have ended. There are issues that welfare systems do not address. The welfare state does not prevent people from being disadvantaged in the labour market. It does not end inequality. Welfare systems do not guarantee full employment or stable marriages. There are limits to what we should expect.

The welfare state should, however, have helped to prevent poverty. Social protection should mean that people are not materially deprived, and it should reinforce basic security. Social protection in Britain has never been adequate to do this. Benefits are limited, and there are holes in the welfare net. If there is a criticism of the welfare state in this country, it is that it has never done enough.

Welfare and the poor

The great debilitating myth afflicting all discussions of the welfare state is that welfare is for the poor. The welfare state was never designed for the poor. It was designed to stop people becoming poor, which is very different.

The Poor Law, the system that the welfare state replaced, had been designed for the poor, and it was widely hated. Benefits confined to the poor cannot prevent poverty – because people have to become poor before they can claim them. One still sometimes hears the comment that "people on benefit have cars and satellite receivers", as if this was somehow disgraceful. The question is whether they should be forced to sell their car or satellite dish before they can receive benefit, which was the rule under the Poor Law.

Social welfare in Britain has shifted back towards provision for the poor. General housing subsidies are now focused on individual, means-tested benefits. Old people with capital resources are required to pay for nursing care formerly delivered free in hospitals (a position shortly to be altered in Scotland). Provision for unemployed people who have alternative sources of income – and particularly for married people with a working spouse – has been radically reduced. Protection for mortgage payments has been substantially eroded, and home-owners are mainly expected to rely on optional private insurance to safeguard themselves against homelessness.

Services for the poor are problematic. They are likely to be stigmatised, they are kept at a very low level, they often fail to reach the people they are intended to help. This generates the arguments that are today made against welfare – that it breeds dependency, that people are unwilling to work, that benefits have to be kept low to give the right messages, that it is misdirected. None of these arguments would have been unfamiliar to the administrators of the Poor Law. But they are never heard in relation to universal services, like health care or education, that are not seen as services for the poor, but as services that we all (or most of us) need.

5

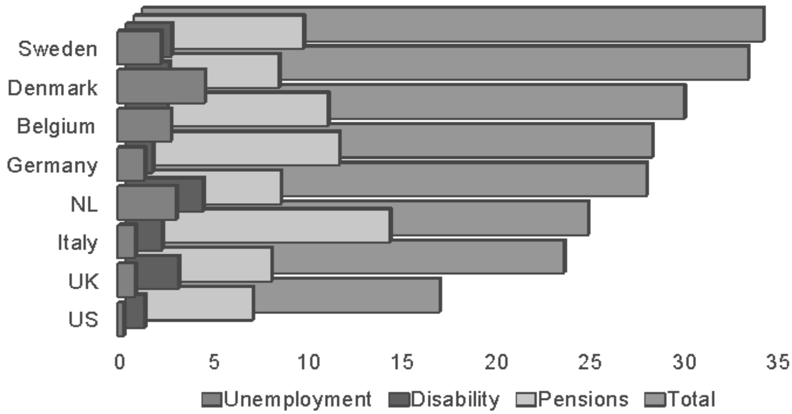
The cost of welfare

International comparisons

The cost of the UK system is markedly less than many other systems in Europe.

Precise comparison is difficult, because many continental schemes include other forms of social protection, especially for health care. Figure 1 shows some basic comparisons (51). The UK sits somewhere between the European norm and the lower figures that are found in the English-speaking countries outside Europe, like Australia, Canada and the US. In European terms, the UK has low to middling taxation, and low to middling benefit costs.

Figure 1: Expenditure on social protection, 1995



Source: OECD (1999).

There is a recurrent myth, fed by political preconceptions, that any country with considerable spending on welfare must, somehow, be experiencing economic difficulties. This is usually reinforced by selective evidence, because some countries have economic difficulties at times when others do not. There is no consistent evidence, however, that benefit expenditure has any effect on the performance of an economy. The evidence shows that richer countries can afford more in social protection, which is unsurprising, but is otherwise inconclusive as to the economic effects (52). There is no economic objection to higher spending on social protection, if governments or taxpayers so wish; the issues are political.

Out of control?

We are often given an image of welfare costs spiralling out of control.

Social security spending is more difficult to control than other government expenditure. It is not capped, like spending on health care or local government; if people have a right to benefits, governments cannot refuse to spend money. It is not self-financing, because unlike insurance-based schemes expenditure is not matched by contributions.

It is true that the costs of social security have increased. The main reasons are:

- an increase in **the cost of pensions**, both because the numbers of pensioners are growing, and because the value of pensions has increased
- the growth of **long term unemployment**, reflected not only in the direct costs of benefits for unemployment but also in related costs for sick and disabled people and single parents, who would not be claiming many of the benefits if they were not also unemployed (53)
- the **inclusion of new factors**: Child Benefit incorporated the tax allowance for children. Housing Benefit accounted for £11.1 billion in 1999/2000; it replaced subsidies formerly accounted for on the housing budget

None of this implies a budget spiralling out of control. It simply shows that social security is large and complex. If we had a more diverse system, of the kind used in most of Europe, it would probably cost rather more.

Counting the costs

The **economics editor of the *Sunday Times*** writes:

"Welfare ... is living proof of the rule that throwing money at a problem will rarely solve it. In 1949, at the dawn of the Beveridge welfare state, UK social security spending, in 1997 prices, totalled £12 billion ... roughly five per cent of gross domestic product. By 1998-99, social security had risen to £100 billion ... 12 per cent of GDP." (54)

Social security did not cost £100 billion in 1998-99; this figure, which was widely reported, was inflated for public consumption in an inflammatory departmental report on social security fraud (55). For that year, the Treasury put the cost at £92.4 billion (56). The DSS (now the Department of Work and Pensions) tended to give higher estimates – £95.1 billion in a press release (57), £95.6 billion in the DSS report on social security spending, and £97.9 billion on the department's web page. Governments are never very sure what the true figures are; it takes a couple of years to deliver accurate accounts of actual spending.

Rather more serious is the lumping together of different kinds of spending. The largest single expenditure head in the social security budget is the pension. People are living longer, and pensions have become more generous. There are nearly three times as many pensioners now as there were in 1949. The retirement pension alone accounts for one third of expenditure, and spending on pensioners accounted for 48 per cent of total expenditure in 1999/2000 (58).

The next largest category concerns people who are disabled, who received 25 per cent of expenditure in 1999/2000. That makes nearly three-quarters of the total budget. 8 per cent goes on children, principally in the form of Child Benefit. Other categories, including statutory sick pay and widows, accounted for 4 per cent. Support for the more controversial groups – families (including single parents) and unemployed people – accounted for only 15 per cent of total expenditure.

Welfare fraud

The argument that social security is widely abused has been around for a long time. It first became prominent in the late 1960s, when a former benefit fraud officer published allegations about abuse (59). The issue became inflamed in the press coverage of the 1970s; government estimates of the level of abuse were massively increased in 1980.

The figures have now been inflated beyond anything the evidence can sustain (see box below). Fraud is a major concern even if the figures are not very reliable, so does this matter? It does, because exaggeration and constant harping on the theme has done much to poison the atmosphere. Counts of fraud have been replaced by counts of "fraud and claimant error". Claimants are constantly under suspicion. Benefits have become increasingly complex, and sensitive to changes in personal circumstances – a shift that has negative effects on the benefits system overall.

Welfare fraud: the evidence

The largest estimates of fraud come from a 1998 DSS discussion paper, **"Beating Fraud is Everyone's Business"**, which claimed that 2 per cent of benefit expenditure went on "proven" fraud, 3 per cent more on cases where there was "high suspicion" and possibly 2 per cent more on cases of "low suspicion" (60). This 7 per cent is what has generated the widely circulated estimation of social security fraud at around **£7 billion**. But the figures bear little relation to the evidence.

The **first 2 per cent** of "proven" fraud is not based in discovery or prosecution: it seems to refer to the DSS's previously accepted figure for fraud, explained by social security minister Reg Prentice in 1980: "There is no need to ring around department stores to know that they, and other large commercial organisations, assume a loss through fraud of 1 or 2 per cent in their operations" (61). (There are some differences between the Benefits Agency and department stores; for example, the BA does not lay the money out on display and invite people to walk round it with shopping trolleys. The **next 3 per cent** is based on survey evidence about fraud, which is a different way of counting the same suspicion. The **last 2 per cent** relates to "low suspicion" – cases where fraud is possible but unlikely.

The "**survey evidence**" reviewed in the Green Paper raises suspicions of over £3 billion in fraud. This is a very substantial sum, but even if all the suspicions were justified, it would not amount to half the level of fraud claimed. Evidence for suspicion is largely geared to certain benefits – especially Income Support, Job Seeker's Allowance and Housing Benefit. These benefits account for only a quarter of benefit expenditure; the bulk of spending goes on pensioners and disabled people. Pensions, according to the survey, are not noticeably vulnerable to fraud. This is not because pensioners are outstandingly honest, but because entitlement is based more on contributions and age than personal circumstances.

6

Welfare dependency

The temptations of welfare

The fear of making people better off on the dole is one of the recurring themes of welfare provision in Britain.

Support for people who are not working has been seen as

> "… holding out a temptation almost irresistible to become poor. It follows, that no person maintained on charity should be raised above that rank which he held in the period of health and industry: – That every person on charity should descend at least one step below the station which he occupied in the season of health and labour ..." (62)

This was written in 1783. The economic theories of David Ricardo suggested an "iron law of wages": that the natural level of wages tended to subsistence, and that the effect of poor relief was to undercut the position of independent labourers (63). The Poor Law Commission of 1834 wanted the position of paupers to be "less eligible", or less to be chosen, than that of labourers; the Commission's members almost certainly believed they were protecting labourers by holding down support for the poor.

The idea that the welfare state makes people dependent has been re-imported from the United States. Charles Murray's *Losing Ground* argued that the extravagant generosity of anti-poverty measures in the US created incentives to remain on welfare (64). This was the rationale of many subsequent attempts to penalise the poor.

The same kind of argument is found in government statements about welfare here. The 1998 Welfare Reform green paper states:

> "The welfare system ... often fails to offer the kind of support needed in today's world. It chains people to passive dependency instead of helping them to realize their full potential." (65)

For more than two hundred years, people have been writing that although people were ashamed to claim benefit thirty years beforehand, since then they've learned to be dependent. This, for example, was written by one commentator in 1752:

"When the Statute of Elizabeth relieving the Poor first took place, the Burthen was light and inconsiderable. Few applied for relief. It was a Shame and a Scandal for a person to throw himself on a parish ... but the Sweets of Parish-Pay being once felt, more and more Persons soon put in for a share of it. One cried, he as much wanted, and might as well accept it, as another; the Shame grew less and less, and Numbers encouraged and countenanced one another." (66)

The same sort of thing recurs throughout the historical literature (67). It has to be wrong, because if the same kind of complaint has been made in every generation, the belief that people used to not to do it thirty years before must be untrue. There never was a golden age when everyone was ashamed to claim and no one was dependent.

Incentives to work

Some people are better off on the dole, mainly in low wage areas, but it is very unusual. Benefit rates are considerably below wages. Low wages for people with families are supplemented by Working Families Tax Credit (which, although it is a new system, is based on benefits which have existed for thirty years). Families with children also get the value of Child Benefit, and Housing Benefits are paid to people in work (at a more generous rate) as well as people not in work. It is very unlikely, when benefits in work are taken into account, that someone will be worse off if they move into work. According to the last Social Security Departmental Report, only 4.9 per cent of claimants get more than 70 per cent of their previous earnings, and only 5,000 people nationally (about one in 250) are actually worse off (68).

The argument that poor people should not be better off on the dole is usually presented as if it was about "incentives to work". A person has an incentive to work if benefits are less than wages. This is the norm in most of continental Europe, where unemployed people receive insurance payments *related to their previous wages*. The position in Britain, almost uniquely, is that payments for unemployed people are not related to what the same person would receive in work. *Everyone* who is unemployed has to receive less than *anyone* who is in work. This has nothing to do with incentives. It is a survival of the Poor Law principle of "less eligibility".

Benefit levels

David Blunkett has argued that the relief of poverty by cash transfers is "ineffective and unsustainable" (69). This is not because cash transfers have no effect; it is because benefits are set at such very low levels.

Benefits in most of continental Europe are intended to replace a sufficient part of a person's income to ensure **"social protection"**. In France, Denmark or the Netherlands, people who receive pensions, sickness and unemployment compensation do not remain poor. The main problem in these systems is exclusion – the lack of protection for those who are not covered – rather than the level of benefits. Benefits help when they are available.

Benefits in Britain, by contrast, were intended only to be **"adequate"**. This has generally been interpreted as meaning minimal subsistence – enough to cover the costs of physical existence, but not enough for a basic standard of living as it is normally understood, let alone for income replacement.

Indeed, despite the emphasis on "adequacy", it is not necessarily true even to say that benefits are enough for minimum needs. The Beveridge recommendations were based on figures lower than Seebohm Rowntree had calculated were needed for minimally decent social life, and the rates introduced after the war did not reflect the costs of living (70). There have been so many adjustments and alterations in the intervening years that there is no visible relationship between benefits and minimum needs now. Several studies have shown that benefits are not enough to live on (71).

The government has taken steps in its recent budgets to increase the income of the poorest families, and the 2002 Budget document claims that since 1997, families in the lowest income decile will be nearly £50 per week better off (72). This will certainly help, but there is still a striking difference between benefit rates and incomes from even low-paid work, and it is not clear that the new rates will meet standards necessary for a minimum income (73).

Dependency

There are three main things that need to be said in response to accusations that benefits foster dependency.

The first is that **welfare does not substantially affect unemployment**. It's not benefits: it's the economy. In the depressions of the 1870s and the 1920s, people didn't work because the economy was depressed. Many critics blamed the Poor Laws, in much the same terms as people blame the welfare state now. This was obviously wrong, partly because the Poor Law offered abysmally low levels of support, but mainly because when jobs became available, people took them. Social security remained available throughout the post-war period. If increasing long term unemployment has anything to do with welfare, one would need to explain why it grew only thirty years after the system was introduced, and did so when benefits for unemployed people became relatively less rather than more generous. Long-term unemployment mushroomed because of the collapse of traditional patterns of employment, particularly in manufacturing industry, and not because of welfare.

The second response is that **the problems are created by systems focused on the poor.** In so far as there are inducements to dependency, they are produced by systems that require people to be poor as a condition of receiving benefit. If benefits are conditional on low income, a person whose income increases either loses the benefit, or has it withdrawn. This is the "poverty trap": the highest marginal rates of tax in Britain are experienced by poor people, because of the combined effect of tax and benefit withdrawal. These problems do not occur with universal benefits like Child Benefit.

The third response, and in some ways the most important, is that the general argument doesn't apply anyway. **Welfare does not foster dependency.** There are some people who do stay dependent for very long periods – pensioners are the main example – but the vast majority of claimants do not stay on benefit for the long haul. It is not impossible for people to stay on benefit for a very long time; it is just rather unlikely.

7

Conclusion

Myths matter. If governments believe, for example, that there is a hard core of incorrigibly poor people, they will create policies to contain, and if possible to break up, that hard core.

If they believe that higher benefits will create undesirable effects, they will not pay higher benefits. If they believe that people are poor through laziness and lack of will power – one of the reasons most often given by the British public – the answer to poverty is to motivate poor people, or to require them to work.

But all the evidence we have indicates that poverty is not a problem of a permanently excluded underclass. Most of the population are vulnerable to it. At the same time, systems that focus on "the poor" are usually poor systems. The obsession with targeting the dependent poor has added to the complexity and the administrative problems of the benefits system.

The politics of social security are persistently ill-informed. People keep repeating myths that have been disproved time and again.

Looking back at the various misconceptions and prejudices we have been picking through, we can delineate two fundamental myths, intertwined and interdependent, that distort contemporary public discussions of poverty and welfare. These are

- that the poor are a self-contained minority within society
- that the purpose of the welfare state is to deal with these people

In response this pamphlet has suggested

- that poverty is an economic risk that affects almost all members of society
- that welfare should be seen as necessary social protection for all citizens

We are in danger of losing sight of what the welfare state is about. It was not intended to focus on the relief of poverty, but to be a universal service tiding us over periods of economic difficulty and preventing us from falling into deeper disadvantage as a result.

Some of these comments might be taken as a reproach to the present government, but the problems described here did not begin with this government, and they are not unique to them. There have been genuine improvements in the condition of the poor under Labour, but there have also been negative, punitive measures. There is a mixed, and sometimes inconsistent, policy programme.

The best way to help the poor within the welfare state is not to target programmes more carefully on the poor, but the converse: to ensure that there is a general framework of resources, services and opportunities which are adequate for people's needs, and can be used by everyone. That is what the welfare state was meant to do. That is what we have forgotten.

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