

**FABIAN**

**SOCIETY**

Webb Memorial Trust

# The Solidarity Society

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FIGHTING POVERTY AND INEQUALITY IN AN AGE  
OF AFFLUENCE 1909-2009

## Executive Summary

*This report sets out a strategy for how to reduce, eliminate and prevent poverty in Britain – one based on a vision of equal citizenship.*

*It is the final report of a project to commemorate the centenary of Beatrice Webb's 1909 Minority Report of the Royal Commission on the Poor Law. The Minority Report was original in addressing structural and not only behavioural causes of poverty and in seeing the need to prevent poverty, not simply offer short-term relief. So it argued for the abolition of the Poor Law and the workhouse, making the first call for a universal welfare state as a right of citizenship.*

*This report addresses how those values and insights can animate and inspire a radical contemporary vision to fight and prevent poverty in modern Britain, and makes immediate proposals which would help to build momentum for deeper change. It also seeks to learn lessons from the successes and failures of post-war welfare history, as well as from international evidence on poverty prevention.*

### **Chapter 1 – 1909-2009: The long view of poverty prevention**

*Chapter 1 sets out to learn lessons for future poverty prevention by looking at what happened to poverty levels in Britain across the 20th Century and why.*

- We show how relative poverty levels through the 20th Century were volatile, swinging from comparatively high poverty in the first half of the century to comparatively low poverty from the 1950s to the 70s, and back to comparatively high poverty again in the 1980s and 90s.
- These trends are explained not primarily by economic or demographic forces, but by politics and policy: the late 1940s and the early 1980s were moments of fundamental change in the nature of our welfare institutions and in the extent to which we decided we were going to prevent poverty. These policy changes, in turn, were driven by significant shifts in public attitudes to welfare and in the underlying quality of social relations, and especially in how people viewed the poorest in society.
- The quality of social relations was itself shaped by how the welfare institutions of the time treated people. The workhouse in Victorian Britain, for example, physically separated the poor and non-poor, generating social segregation. A key lesson is that institutions for successful poverty prevention must attend very closely to the way in which they affect and structure the social relations between individuals and groups in society.

## **Chapter 2 – Where we are today**

*Chapter 2 reviews some of the current and future challenges we face for tackling poverty and inequality, including the public and political constraints that the welfare state of the future will need to overcome in order to do this successfully.*

- Poverty has fallen in Britain over the last decade. But welcome reductions in child and pensioner poverty have been combined with greater poverty among work-

ing-age adults without children, especially those on out-of-work benefits, as well as entrenched disadvantage among those in social housing. And public support for redistribution has fallen sharply.

- Demographic change will drive increases in demand for certain services and benefits, requiring more spending – and public willingness to contribute through taxation. Trends such as ageing and immigration risk putting strain on the solidarity necessary to sustain a generous welfare state.
- Current welfare strategies seem unlikely to reduce poverty significantly below existing levels – where around 20 per cent of people are in relative poverty. Even maintaining these levels may be challenging. Therefore, a new poverty prevention strategy is needed. Restructuring our institutions and changing our public culture of welfare – in particular to ensure the ‘welfare contract’ is effective and fosters public support for tackling poverty – will be crucial to break out of these constraints.

### **Chapter 3 – Two dilemmas of welfare**

*Chapter 3 explores some specific lessons in post-war welfare history about how to design institutions for successful poverty prevention, looking in particular at the tensions between universalism and targeting, and between need and entitlement.*

- The very different trajectories of the NHS and social housing since 1945 show how much decisions about universalism and targeting matter. The NHS, which stayed universal, remains popular today, with the public showing a high degree of willingness to contribute towards it. Social housing, by contrast, became ever

more narrowly targeted only on the needy, with too much of it also spatially segregated from the rest of society. This has had knock-on consequences for its effectiveness at tackling poverty and exclusion, and for its social image.

- The post-war history of social security shows the tensions that can arise between need and entitlement in welfare policy. Understanding these tensions, Beveridge tried to create a sense of earned entitlement to welfare, but his scheme was structured in a way that made an increasing reliance on means-tested social assistance inevitable. The contributory principle was then further weakened in the 1980s. So we have shifted back towards a need-based framework for out-of-work benefits, policed through a system of conditionality perceived as punitive. This helps to foster the negative views of welfare claimants we see today.
- The evidence suggests that the design of welfare institutions – particularly how far they are targeted or universal in their coverage; and how far who gets what reflects principles of need or entitlement – is crucial for both their effectiveness in tackling poverty and also for their popular legitimacy, which will determine future levels of investment.

#### **Chapter 4 – The dynamics of poverty prevention**

*Chapter 4 sets out a model of how the design of welfare policy interacts with public attitudes and underlying social relations in order to better understand how we need to restructure our key welfare institutions to tackle poverty sustainably over the long term.*

- Public attitudes to welfare exert a significant influence over the development of welfare states. In turn, how

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welfare institutions operate, by structuring the social contexts in which people evaluate policy, can exert a significant influence over the evolution of public attitudes to welfare.

- Both the coverage of welfare policy and the distributive principle underpinning it are crucial in shaping attitudes to welfare, whether through their interaction with self interest, perceptions of fairness or, more deeply, because of how they structure social relationships between individuals. For example, policies with narrow coverage divide the population into groups, who may then think about their interests and identities in terms of 'them' and 'us', whereas policies with wide coverage align interests and identities so that we are 'in this together'.
- Tensions between how welfare institutions allocate resources, on the one hand, and the effect of these allocation procedures on underlying social relations, on the other, set up dynamic processes that influence how institutions evolve over time – whether expanding and becoming more generous, or contracting and becoming less generous.
- From this analysis, we identify two important paradoxes for poverty prevention: that targeting on the poorest will usually mean less going to the poorest over time; and that allocating purely on the basis of need is not necessarily the best way to help those in need. So getting the underlying design of institutions right is key for effective welfare policy. Perhaps counter-intuitively, welfare systems which are focused on addressing 'poverty' do worse in poverty outcomes than broadly-based systems which aim to reflect a shared sense of citizenship across society. This insight underpins the new welfare settlement we advocate here.

## **Chapter 5 – Public attitudes to welfare allocation**

*Chapter 5 looks at some of these dynamics in practice. Drawing on new research, it explores public attitudes to welfare and how they might inform the successful design of welfare policy.*

- Many people support progressive tax, benefits and services in principle, but in practice express opposition to redistribution and welfare, particularly if these don't chime with their sense of what's fair. One important reason concerns who is included: in some contexts, people feel uneasy about public spending that is narrowly targeted in coverage, which can create a sense of 'them' and 'us'.
- Another source of opposition to important aspects of welfare is the idea of contribution: a concern that those claiming welfare won't put something back in. People are cooperative by nature, rather than purely self-interested. This is not driven by altruism, however, but by a sense of reciprocity. So people feel concerned about policies where they feel this arrangement is violated.
- Successful poverty prevention requires designing welfare institutions which are both effective and which harness our collective and cooperative instincts, rather than working against them. Tapping into these instincts is key to getting the generous welfare state we need.

## **Chapter 6 – In this together? Why universalism matters**

*Taking the lessons of previous chapters seriously means championing universalism and integration in welfare. Chapter 6 looks at what this might mean in some important areas where our welfare state is currently getting it wrong – and doing more to divide than unite us.*

With housing, the spatial segregation of much social housing has contributed to poverty and social exclusion for many.

- **The long-term goal should be the full dispersal and integration of social housing across our housing stock.** Local Authorities should have an obligation to ensure that all new private and social housing is genuinely ‘pepper potted’ and ‘tenure blind’, with income mix as well as tenure mix; active area management will also be crucial to ensure that mixed communities do not lose their balance over time.

Beyond increasing supply, addressing the ‘residualisation’ of social housing will also require ending the narrow coverage of financial support for housing.

- **We propose extending the system of financial support for housing further up the income spectrum.** We propose to do this via a Housing Cost Credit, which would bring all forms of housing assistance into the same institutional structure, including extending support to struggling low- and middle-income homeowners.

Tenure distinctions themselves can prove socially divisive, particularly when accompanied by a cultural belief that home-ownership is a morally superior form of tenure.

- **We propose a variety of measures to break down tenure distinctions and blur the polarisation between ownership and ‘non-ownership’.** Shared ownership vehicles that allow people to move out of ownership as well as into it could play an important role here, including through a ‘right to sell’, which would also help to generate housing mix. We also propose a new



concept – ‘social leaseholding’ – to make explicit the way in which private property relies on public goods and public spending.

On taxation, the tax system is bad at tackling poverty because of its partial coverage and the regressive nature of using conventional tax reliefs and allowances for providing financial support.

- **We propose the goal should be a fully integrated tax and benefits system, including by replacing the system of reliefs and allowances with direct transfers, which would be much more progressive.** We propose replacing the personal allowance in the income tax system with a universal tax credit (which, being payable to all, would also be a key instrument for tackling poverty). Tax relief on pensions and savings should be scrapped and replaced with a system of matched payments, providing the same incentives for everyone.

When it comes to benefits and services, the key factor in how successfully welfare states redistribute to those in poverty is not how efficiently they target resources, but the volume of finance flowing through the system. This, in turn, depends on people’s willingness to pay tax to finance welfare. So the issue of how generous benefits and services are to middle- and higher-income households therefore becomes crucial.

- **A major focus for poverty prevention therefore needs to be ensuring benefits and services cover middle-income households and are set as sufficiently generous levels to be meaningful to them.** We suggest that the Treasury should explicitly take into account the effect of policy design on people’s willingness to contribute when designing welfare programmes and making future fiscal projections.

## Chapter 7 – Why we need a new welfare contract

*Taking the lessons of previous chapters seriously will also mean shifting welfare policy away from simply responding to need and back towards reciprocity once again, where people earn entitlement through participation in society. Chapter 7 looks at what this might mean in the areas of social security, pensions and welfare-to-work.*

The National Insurance system currently excludes many groups in ways that are unjust and which also violate widely-held public perceptions of fairness. These include being too employment-centred and failing to recognise non-work contributions adequately; imposing a floor on the earnings level at which people gain entitlement and a ceiling on the level at which people have to contribute; and tying entitlement quite rigidly to past contribution records.

- **We propose a series of reforms to make the National Insurance system more inclusive and more progressive – changes that would also resonate with public perceptions of fairness.** We propose that caring, studying and certain types of volunteering count as qualifying activities, and are supported by appropriate benefits. We propose the abolition of the Lower Earnings Limit, which means those in part-time or low-paid work do not qualify for entitlements, and the abolition of the Upper Earnings Limit, which currently sees middle-income earners contribute a higher share of their earnings than the richest. And, except for pensions, we propose that other social security benefits should be earned on the basis of current participation, rather than an accumulation of past contribution records.

The motivation behind conditionality is key to whether or not it will help or harm efforts to tackle poverty and inequality.

- **To ensure that conditionality is not used to deter claimants or cut expenditure, we propose that further welfare reforms should be required to demonstrate that they will benefit the prospects or welfare of claimants, and that any savings from reducing welfare caseloads should be hypothecated back into the budget to assist those out of work.** The Government also needs to be clear about those groups for whom there should be no expectation to work or prepare for work, including clarifying the status of caring.

The segregation of people by work status within our welfare system, such as the different status of workers and carers, has long been a source of injustice.

- **Addressing this will require bringing all of working age within the same system.** We propose a single working-age benefit that would not only unite out-of-work benefits and carer benefits, but would also include in-work financial support too.

The current low level of out-of-work benefits means they are not sufficient to keep households out of poverty. At the same time, public support for redistribution and welfare is at a historic low, with widespread negative attitudes towards claimants and those who need help, which create a significant barrier to addressing poverty.

- **We propose a new type of welfare contract which would restore the link between welfare and participation in society. Incorporating public intuitions about fairness and reciprocity would enable benefit levels to be increased in a way that is currently more difficult.** Specifically, we propose to create a system of ‘participatory benefits’ in which entitlement would be earned through participation in socially useful activities. Such a system would move most claimants out of a need-

based framework and into a reciprocity-based framework, whilst avoiding the exclusionary effects of the old contributory system.

- **This system would also increase the value of out-of-work benefits, to bring them up to the poverty line, and link their uprating to increases in earnings. In-work financial support would also be upgraded.** Those refusing to participate would remain on current levels of benefit, rather than the new poverty-prevention levels.
- **We also propose to ‘re-universalise’ social security through a new lifetime welfare contract, which would set out the benefits and services that each citizen could expect at different stages of life, and the types of participation that would be expected in return.** In particular, such a system would end the artificial division at any one moment between ‘taxpayers’ and ‘claimants’, by making transparent the financial relationship between citizens and the state throughout their lives.

So the report sets out the principles which could underpin an effective and enduring welfare contract, and how these would open up new space for reform where current approaches make tackling poverty more difficult. The argument is also that these principles of universalism and reciprocity should inform a broader agenda of reform across other areas of public policy.



## Introduction

This is an age of austerity – or so we’re told. The first General Election after an epoch-making financial crisis will be dominated by arguments about public spending cuts and the fiscal deficit.

So will issues of poverty, inequality and fairness now slide from public view? Politicians of all parties say no. “We are in this together” is a refrain heard across the political spectrum. But those campaigning to reduce poverty fear this may well prove little more than rhetoric. If only limited progress was made during the long boom, can we really hope to do more when times are harder?

Yet compare Britain of 1945 to that of 2009. There can be little doubt which was the age of austerity and which of affluence. One was the era of the ration book; the other of the iPod. After the war, Britain had national debt of over 200 per cent of GDP, compared to 60 per cent today. But that country voted for the vision set out in the Beveridge Report of 1942, created a National Health Service free at the point of need, and pledged ‘never again’ to the mass unemployment of the 1930s.

Today, even after inflation, our national output is four-and-a-half times greater than it was then.

So the real difference between 1945 and 2009 is not a crisis of affordability. It is a crisis of ambition.

It will be necessary to rebalance the public finances, and debate the different priorities about how to do so. But we should remember too that our societies today, overall,

remain the richest the world has ever seen, having long passed the point where aggregate increases in GDP per capita make us all happier. Indeed, our current austerity results from an implosion of that affluence: meltdown in the City has caused economic recession, public debt, growing unemployment and genuine hardship for many.

This should surely remind us that societies have the levels of poverty and inequality that they *choose*. For many that is a subconscious choice because the ability to choose differently often seems beyond our grasp. But we can see how different societies have made different choices. The belief in the American Dream creates a strong tolerance of poverty in the US which would simply be unacceptable in Scandinavia.

Britain has seen uniquely volatile levels of both low and high poverty and inequality precisely because it has been a 'swing battleground' between competing ideas about what's fair. Wartime solidarity created a commitment to full employment which lasted thirty years and an NHS which remains central to our sense of who we are today. On the other hand, the anxiety of the 1970s oil shocks created an individualistic backlash, and the attitudes to tax, welfare and poverty of the Thatcher era which still shape our public debates three decades on.

### **A decisive moment**

This history also reminds us how much decisions made at moments of crisis matter – and can endure for decades to come. The political choices we make about how we balance budgets today could have consequences that last longer than any economic cycle. This report shows why they could well shape the politics of the next half century – and how the crisis we face goes deeper than the current financial crisis and recession.

Today we could be at a 'tipping point' that sends Britain back towards Victorian levels of inequality and social seg-

regation, and, in the process, makes the solidarity which could challenge that social segregation ever more difficult to recover.

Inequality in Britain today, on some measures, is at its highest since the early 1960s. Despite falls in poverty over the last decade, progress is getting harder. Support for redistribution to help those in poverty is at a record low, with public attitudes to those claiming benefits often harsh and punitive. And important parts of our welfare state often seem to be entrenching and reproducing aspects of inequality, rather than tackling them.

There is a good argument that we have now hit the limits of a strategy of incremental progress through quiet redistribution, of doing good when the 'marginal pound' allows. More of the same will now deliver smaller returns, particularly when there is a squeeze on the public finances and increasing demographic pressures on services. If this is not to prove as good as it gets for another generation or more, a different strategy is needed.

It is understandable that anti-poverty campaigners approach the current fiscal squeeze with a defensive 'what we have we hold' mentality. Redistribution to reduce poverty has made a real difference and things would get far worse for the worst-off if current measures were cut back. But that defensive stance is far too limited an ambition, and one which fails to recognise the limits of the current approach.

So this report argues for a new vision of the generous welfare state we need, setting out what would need to change if we wanted to reduce, eliminate and prevent poverty in a sustainable way.

## **The solidarity settlement**

This report commemorates significant moments in our welfare history, to ask what we can learn from them for the future. In particular, it seeks to reanimate the values and



insights set out in Beatrice Webb's 1909 Minority Report on the Poor Law, which first argued the (then revolutionary) case to scrap the workhouse and create a universal welfare state as a right of citizenship – a vision that finally came to fruition in the Beveridge Report of 1942 and the post-war welfare state.

But if Britain's welfare state grew out of a society threatened by Hitler and the Blitz, many will doubt whether it is possible to recapture such solidarity today in the modern, diverse, and mobile world in which we live.

Successful poverty prevention in the 21st Century fundamentally depends on showing that we can challenge this view – that we *can* have a sense that we are 'in this together'.

The facts are much less gloomy than most people suppose. In fact, there is strong evidence that most of us are, by nature, cooperative; and that diverse societies can continue to support collective provision as long we think that the arrangements are fair and that others will play their part. But if we want a strong welfare state that eradicates poverty, we must create one which harnesses these cooperative instincts, rather than working against them.

That is why this book argues for a 'solidarity settlement' – a profound re-shaping of our welfare system that would enshrine our equal citizenship and foster a sense of our mutual interdependence.

Anti-poverty programmes which do not do this may have more or less success in reducing poverty over the short term. But they will not eliminate it without being rooted in a much deeper sense of the sort of society we want to be. The poor will indeed always be with us if we think about 'poverty' primarily as a question of 'them' and 'us'.

Too often today our welfare state today fails the test of equal citizenship. It does too much to divide us and too little to unite us.

And there is a risk that this could get worse. Fiscal pressures are leading many to call for greater targeting of anti-poverty programmes. It is easy to understand why: if

there is limited cash, surely it would be best to target most on the poorest, which might mean cutting back on benefits and services for the middle class?

In fact, nothing would be worse for the long-term interests of the most vulnerable in our society than taking the middle classes out of the same services the poorest rely on.

Look at what happened to social housing – just as much part of the ‘New Jerusalem’ of 1945 as healthcare. Yet compared to the popular NHS which still serves us all, today the stigma and separation of too much social housing risks entrenching poverty, while making it all the more difficult to find the support and money to do anything about it. That shows why Richard Titmuss was right to warn 40 years ago that “services for the poor will always be poor services” – an argument which well-meaning advocates of a targeted approach to poverty risk forgetting.

If we need universalism to protect solidarity and common citizenship, the same ideal should also lead us to support the idea of welfare as a contract of shared social responsibility.

An important reason why fighting poverty is hard is that the very idea of ‘welfare’ has been contaminated by a successful ideological campaign to stigmatise it as the preserve of a feckless and lazy underclass – essentially returning us to the language of the workhouse.

While there are many myths to tackle here, campaigners against poverty will explode these most successfully when we ourselves advocate that welfare should recognise and reward social contribution, not simply respond to need. That is how to make the case for reinvigorating welfare as a badge of full and active citizenship.

Both of these ideas – of universalism and participation in society – are necessary for effective welfare policy. They are also essential to prevent that sense of ‘them’ and ‘us’, which makes us so much less willing to contribute to the collective pot.

If we combined them, our welfare system would look very different.

Firstly, we would need institutions that sought to break down the damaging social divisions that our welfare state itself helps to create and deepen – such as those between taxpayers and benefit recipients, workers and carers, and public and private housing. Where the separation of the tax and benefits system divides our interests, for example, an integrated system would give all a stake in a key poverty reduction policy. Similarly, breaking down the deep segregation between public and private housing would give social tenants more access to the same opportunities and status as everyone else.

Secondly, we would need to change the culture of welfare away from merely relieving need and back towards recognising participation and social contribution once again – Beveridge's original vision that was never fully realised. This would involve setting out not just what people are entitled to, but also how they earn that entitlement as citizens. Carers, for example, instead of being treated as second-class citizens, would see their contribution rewarded directly. And those out of work would be expected to participate in activities, whether looking for a job, care work, community involvement or developing skills. But, rather than a negative culture of conditionality surrounding benefits given on the basis of need, recipients would earn these entitlements on the basis of their efforts and contributions. Similarly, the culture of rights and responsibilities would extend across society, including the responsibility to contribute back through taxation, rather than 'responsibilities' seeming only to be demanded from the disadvantaged.

This solidarity settlement cannot be achieved overnight, any more than those of 1909 or 1942 could be.

But anti-poverty campaigners again need a radical strategy for the next 30 years, not the next budget. This report sets out the strategy for long-term reform that we

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need, and shows how taking important first steps would then create new possibilities to deepen the agenda and build social coalitions for change.

It is an argument for change which speaks directly to the pressures of this moment of economic uncertainty, fiscal crisis and social pressure. Far from watering down our ambitions, now is the right time to begin.

“The question is asked - can we afford it? Supposing the answer is ‘no’, what does that mean? It really means that the sum total of the goods produced and the services rendered by the people of this country is not sufficient to provide for all our people at all times, in sickness, in health, in youth and in age, the very modest standard of life that is represented [in the National Insurance Bill]. I cannot believe that our national productivity is so slow, that our willingness to work is so feeble or that we can submit to the world that the masses of our people must be condemned to penury”

Clement Attlee, House of Commons, 1946