

## Welfare reform in the UK, 1985-2002

### Introduction

One of the central questions concerning the evolution of the British welfare state can be summarised as follows: how did British governments irrespective of their political orientations - the Conservatives from 1979 to 1997 and the New Labour from 1997 to the present day - manage to implement far-reaching, radical reform when their European counterparts, especially in continental Europe, found it tremendously difficult to introduce much-needed change? The UK, like other countries in Europe, is confronted with a new agenda of needs. **To provide adequately for these new, changing needs is not always compatible with the emphasis on privatisation, cost-constraint and targeting that has been observed in other areas of welfare provision in Britain.** Although the UK has done more to adapt its social policy institutions than most other advanced economies to cost-containment pressures (Glennester 2000: 230), the British welfare state is not always well-equipped to respond to those needs that require expansion of public provision rather than retrenchment, targeting and privatisation. Spending on social security has been severely constrained since the 1980s and unemployment insurance has been nearly abolished. Moreover, the government of Tony Blair emphasises the need to implement policies targeted at the poor and the most vulnerable and has rejected the re-introduction of universal family provision on the grounds that such policies would be both ineffective and unfair. However, more recent policies in the 2002 budget and spending review imply some tax increases to finance spending on popular health services and education policies. As pointed out by Taylor-Gooby (2001: 192), “both main parties now endorse cost-constraint, the expansion of private provision and workfare”, thus leading to the construction of an implicit liberal consensus in the late 1990s. However, the Prime Minister Tony Blair is aware of the emergence of changing needs in relation to female employment in the labour force, long-term care, child-care, employment and social assistance. The current government has tried to reduce income inequality and poverty: the introduction of a minimum wage, the creation of a Social Exclusion Unit within the Cabinet are innovative initiatives that contrast with the traditional indifference of the Conservative towards these emerging new needs.

The Labour government has emphasised three main challenges since it came into office in 1997:

- 1- To improve the conditions for structural economic growth, through the promotion of labour market flexibility that is perceived as being crucial for international competitiveness;
- 2- The promotion of a human capital approach; unemployment, a major concern for both major political parties, is believed to be the consequence of a lack of skills and training;
- 3- To encourage people of working age to work when they are capable of doing so. The Green Paper on Social Security Reform enunciated the principle of “work for those who can, security for those who cannot” (DSS, 1998).

This paper reviews the main areas of welfare reform in the light of current challenges and pressures for change. These areas are: pension reform, long-term care, employment policies, social assistance policies and provision for the low paid, female participation into the labour market, the financing of social protection and the impact of the EU on social policies. The extent to which there is a pattern of continuity between New Labour policies and those of the Conservatives is the crucial question of this paper. Some of these policies mark some clear reversals from those of the Conservatives, such as female participation in the labour force, employment and social assistance policies and a cautious spending increase from 2002. In other areas such as pensions, long-term care and the way in which welfare is financed they continue an evolution which was already underway. The impact of the EU on social policies is clearly ambiguous given the reluctance to abandon the characteristics of the market-oriented strategy. The idea according to which EU social policy could jeopardise the key elements of British economic social prosperity are still relatively popular within the own ranks of the current government. These essential features of the lean Anglo-Saxon model are the low-tax economy and the highly flexible, deregulated labour market. So far, there is little evidence that New Labour is willing to go back to a more universal model of welfare, which explains its ambivalence towards joining the Eurozone. The conclusion analyses the institutional capabilities and vulnerabilities of the current welfare system (Sharpf, 2000). It also attempts to assess the extent to which current reforms have been able to undertake *non-political* challenges, i.e., income inequality.

## **I- Pensions**

This section first examines the current trends and challenges to the pension system. Second, it provides an overview of the pensions system. Third, it analyses Conservative policies 1979-1997. Fourth, it presents New Labour pension policies as well as the current pension crisis- evidence suggests that privatisation is backfiring due to the volatility of the market and the transformation of the occupational pensions schemes. Fifth, it will describe the policy debates and controversies concerning the pension crisis.

### **1- Trends and challenges**

In common with other European countries, the UK has an ageing population (see table 1 below). The number of retirement pensioners increased by 44% to 10.8 million between 1971 and 1998. 64% of pensioners are women. However, population ageing is relatively slow compared with other European countries (Taylor-Gooby, 2001: 202). In fact, the UK is slightly below the EU average (15.7 of the population aged 65 and over in 1999 versus 16.0 for the EU, see Social Trends 2001). Countries like Sweden, Italy and Greece with 17.6, 12.2 and 16.8 % are subject to more severe demographic pressures.

**Table 1: percentage of the population aged 65 and over: EU comparison**

	<b>1960</b>	<b>1970</b>	<b>1981</b>	<b>1991</b>	<b>1999 (1)</b>
Italy	9.3	10.8	13.2	15.1	17.6
Sweden	11.7	13.6	16.4	17.8	17.2
Greece	9.4	11.1	13.1	13.9	16.8
Belgium	12.0	13.3	14.2	15.0	16.5
Spain	8.2	9.5	11.2	13.8	16.4
France	11.6	12.8	13.8	14.1	15.8
United-Kingdom	11.7	13.0	15.0	15.7	15.7
Germany	11.5	13.5	15.5	14.9	14.9
Denmark	10.5	12.2	14.5	15.6	14.8
Netherlands	8.9	10.1	11.6	12.9	13.6
EU average	10.6	12.1	13.9	14.7	16.0

1: Population at January 1<sup>st</sup> 1999.

Source: Eurostat

Despite this relatively favourable situation in comparative terms, rising life expectancy of people reaching pensionable age is now a major pressure on the pension system. Besides, it also increases the need for long-term care. Whereas the total number of pensioners rose by 44% between 1971 and 1998, the number aged over 80 increased as much as 224% for men and 225% for women. Over the period 1973-94, rising survival rates contributed 46% to the growth in the pensioner population (Howard and Walker, 2000).

Retirement pensioners constitute the largest group of benefit recipients and in 1998-99 accounted for 46% of social security expenditure according to Howard and Walker (2000). This percentage continues to rise. The Departmental Social Security report (2001) claims that “more than half of the expenditure on social spending goes to people over working age”. Demography is the main force behind the maturation of the pension system.

The current pension scheme fails to provide adequate financial support for many pensioners who do not have occupational and personal pensions. The basic state pension was introduced in 1948 as a result of the Beveridge report, with the aim of providing income for old-age pensioners based upon their record of National Insurance contributions (NICs). The initial idea was for the basic state pension to operate on a funded basis, with each generation paying for their own pensions through NICs. This would provide a 'floor' of provision on which individuals could build by their own efforts. However, the NI basic scheme was never financed at the level envisaged by Beveridge and basic NI pensions remained close to minimum subsistence means-test level.

## **2- The UK pension system**

The UK pension system includes a PAYG financed first-pillar state national insurance pension, namely the Basic State Pensions (BSP) a variety of stable and private second-pillar schemes, plus means-tested assistance for poor minorities. The second pillar consisted of the PAYG State-Earning-Related Pension Schemes (SERPS) created in 1978, which has been replaced in April 2002 by the Second State Pensions. BSP and SSP are run by the state whilst employers run private and occupational pensions, including stakeholder pensions in partnership with the central government. The retirement pension age for men is 65 and for women, 60. However, women's state pension age will start to change gradually from 2010 and is scheduled to be 65 by 2020. Social state insurance benefits are financed by a single premium - the National Insurance Contributions (NICs) - levied on employers and employees as share of wages. The income from contributions flows into a National Insurance Fund that pays out current benefits from this income. Old age pensions - basic and earning related - account for more than 80% of the fund's expenditure. The remainder is met by grants from general taxation.

The current UK pension system is two-tiered, with an optional third tier---largely confined to higher income earners---and a means-tested top-up for the least well-off. In this respect, the UK pensions' problem is construed in much the same way by both the (New) Labour governments and the preceding Conservative governments: to contain the costs of pensions by shifting much of the 'burden' from the state to the individual by way of the second-tier pension. Thus, the policy objectives of UK governments for most of the last twenty years remain much the same: for the Conservatives during the 1980s, to render the "dependent" "independent"; for the current Labour administration, to shift the 60:40 ratio of state: non-state pensions to 40:60.

### ***The original system***

The original, 1948 pension scheme, based on the Beveridge Report, was a simple flat-rate, 'pay-as-you-go' scheme: flat-rate contributions, flat-rate benefits, with payments financed by contributions. Revenue from general taxation was used to pay pensions to older people without a contributions record, with National Assistance as a 'top-up' safety net. By 1960, the Basic State Pension was equivalent to around 15% of average earnings. Alongside was a thriving private pensions industry, largely consisting of occupational pension schemes.

During the early 1970s, with growing recognition that the Basic State Pension left many pensioners on, or below, subsistence-level income, rising unemployment, the penalties suffered by 'early leavers' in occupational pension schemes, and governments not prepared to impose occupational pension schemes on all employers, pension reform occupied a prominent place in policy debates. The 1975 Social Security Act introduced two major extensions to the level and coverage of state-managed pensions:

- Basic State Pension: this was to increase in line with whichever was the greater of rises in earnings or prices. Those not in work due to illness, unemployment, or looking after dependants were credited with contributions.

State Earnings Related Pension Scheme (SERPS): a new, compulsory second-tier pension based on earnings-related National Insurance contributions. Employees contributing to an occupational pension scheme which guaranteed the same level of

pension as SERPS were permitted to 'opt out', and paid a reduced National Insurance rate. The SERPS scheme provided an additional pension equivalent to some 25% of earnings, with assessment based on an employee's best twenty years of earnings.

### **3- Conservative policies**

The 1975 Act is regarded as having introduced a comprehensive and relatively generous pensions' policy. However, the arrival of the Conservative governments in 1979, heralded concerted attempts to 'roll back the frontiers of the state'. In respect of pensions, the Conservatives wanted to head off future financing problems as SERPS matured at the same time as the population of pensionable age was rising. The government's strategy was to contain the cost of state pensions by encouraging individuals to become independent of the state. Individuals would bear more of the cost of providing for their income in retirement. Both forms of state pension came under attack:

- 1982: the indexation of the Basic State Pension was changed from earnings to prices. Due to earnings growth outstripping growth in prices, the effect was to reduce the Basic State Pension from around 20% average earnings to about 15% in 1999 (Disney et al. 1999: 45). The floor and ceiling for calculating SERPS entitlements were also indexed to prices.

- 1986 Social Security Act: this halved the benefit levels under SERPS, by (i) basing entitlements on whole employment career earnings, rather than the best 20 years; (ii) gradually reducing SERPS payments from 25% of average earnings to 20% (by 2009); (iii) reducing the survivor's pension from 100% to 50%.

- 1986 Act: sought to promote occupational pension schemes, by (i) providing for minimum contribution (rather than minimum benefit) occupational schemes; (ii) awarding a 2 percentage point contribution rebate to new occupational pension schemes; (iii) allowing employers to compel employees to join the employer's occupational scheme.

- 1986 Act also sought to promote personal pensions, by (i) extending the right to 'opt out' from SERPS to those with a defined contribution pension scheme (occupational or personal); (ii) awarding a rebate of 5.8 percentage points on National Insurance contributions (2 percentage points for employees, 3.5 points for employers, both paid directly into the pension fund) to those who contracted out from SERPS to take up a personal pension; (iii) awarding a 2% rebate (until April 1993) to new purchasers of personal pension scheme (Bonoli 2000: 78-81).

Personal pensions proved hugely popular---and a disaster for the government and the pensions industry. In the event, by 1994, the number of personal pension holders had reached nearly 6 million, at a total cost to the Exchequer of some £9.7 billion (the original budgeted cost was £2 billion). Moreover, whilst the incentives for personal pensions had the desired effect (from the government's perspective) of encouraging people to 'opt out' of SERPS, they also had the effect of encouraging some 5 million people to leave occupational pensions schemes (Bonoli 2000: pp. 78-81, Table 3.3).

The ‘disaster’ for the pensions industry related to both occupational and personal pension schemes, and undermined the readiness of the public to fall in with the ‘independence’ strategy. The first problem arose with the ‘Maxwell scandal’: in late 1991, Robert Maxwell was found to have raided the Mirror Group pension fund for capital to invest in his several other companies, resulting in a loss of £1billion from the Mirror Group pension fund.

The second, and larger, disaster was the ‘mis-selling’ scandal that seeped out during the early 1990s. People had been persuaded (by insurance salesmen) to opt out of SERPS or to leave occupational schemes to take up a personal pension whereas they would have been better off remaining with their original pension scheme. Up front charges proved high; so were penalties on ‘early leavers’. The upshot for pension’s policy, and for the insurance industry, of ‘mis-selling’ has been to undermine public confidence in private/personal pensions.

#### **4- New Labour policies**

There is a strong pattern of continuity between the Conservative policies and those of the New Labour which came into office in 1997. The current government has not reversed the trend towards privatisation endorsed by the Conservatives in the mid-1980s. However, the government is trying to combine somewhat contradictory objectives: first, the need to provide better for people with low incomes figures prominently on the agenda; second, the will to shift responsibility in providing pensions provision away from the state towards employers and employees. This is reflected in the White Paper’s title “Partnership in Pensions” (DSS, 1998). At present some 60% of retirement income comes from the public purse and 40% from occupational and private pensions and private savings. The objective is, by 2050, to have reversed this ratio. Table 2 shows that, other things being equal, pension costs are likely to fall rather than rise in the future. There are two reasons for this. First, demographic pressures are not as strong in the UK as in other European countries. Second, reform of the benefit systems over the past two decades has substantially cut the costs of the system, largely by cutting the value of the pensions that it pays out. Moreover, the replacement rates of the BSP are very low. Until the early 1970s, the level of the BSP was uprated on an ad hoc basis. It was then formally linked to the faster of growth in prices or earnings until 1981, since when it had been formally linked to price inflation. The current policy of price indexation means that, assuming real earnings growth of 1,5% a year, the BSP will fall under 7% of average earnings by 2050. However, new increases above price inflation in the 2001 and 2002 will mitigate this somewhat.

**Table 2: Projected future UK state spending on pensions (BSP and SERPS)**

Year	2000	2025	2050
Spending as percentage of GDP	4.4	4.4	3.4
Million of pensioners	10.5	12.7	14.3
State spending per pensioner in relation to GDP	100	90	58

Source: DSS, 1998

This policy choice comes at a price: poverty is now a very serious problem for future retirees regardless of their pension's schemes. In the UK the pension problem is that of pensioners poverty, especially for those on state benefits, as Will Paxton argues:

"In the UK, given present policies, spending on public pensions is forecast to decline, so that most uniquely Britain faces no funding crisis. Rather, the present government inherited a system that in 1998-1999 left 30% of all pensioners below the poverty line (half of mean household income after housing costs." (Paxton, W. 2000: 239). As a whole pensioners incomes have grown in real terms by around 70% over the last two decades. Growth has been seen in each part of the income distribution, although it has been greater at the top of the income distribution than at the bottom. The poorest pensioners are overwhelmingly dependent on state benefits (which have risen only in line with prices) for their income, richer pensioners get the majority of their income from occupational pensions and other private sources, as shown by table 3 below.

**Table 3: Source of Pensioners' Incomes 1999/00**  
**By quintile of the income distribution**  
**£ per week, July 199 prices**

	Poorest	Q2	Q3	Q4	Richest	All
<b>Pensioners couples</b>						
Benefits	£125	£151	£161	£154	£139	£146
Occupational pensions	£13	£31	£57	£120	£297	£95
Investment income	£8	£10	\$17	£33	£197	£53
Earnings	£1	£4	£10	£25	£145	£37
Other income	£0	£1	£1	£1	£8	£2
<b>Gross income</b>	<b>£147</b>	<b>£195</b>	<b>£245</b>	<b>£333</b>	<b>£746</b>	<b>£333</b>
<b>Single pensioners</b>						
Benefits	£74	£95	£111	£121	£129	£106
Occupational pensions	£4	£13	£20	£42	£110	£38
Investment income	£4	£6	£5	£11	£63	£18
Earnings	£0	£1	£2	£3	£31	£7
Other income	£0	£1	£0	£1	£5	£1
<b>Gross income</b>	<b>£82</b>	<b>£115</b>	<b>£139</b>	<b>£178</b>	<b>£338</b>	<b>£171</b>

Source: DSS Pensioners' Income Series 1999/00

Aware of this problem, the government has made tackling pensioners poverty a priority. It thus created a means-tested Minimum Pension Income Guarantee at higher level. The Minimum Income Guarantee (MIG) is a new means-tested benefit, based on the previous Supplementary Pensions, to ensure that no pensioner's income is less than £100 a week (by April 2003); indexed by earnings growth. The Minimum Income Guarantee has channelled much of additional expenditure on pensions to the poorest pensioners. The goal is to raise the living standards of those in the lower part of the distribution of retirement incomes. However, the extent to which the MIG will suffice to lift low income pensioners out of poverty is open to question (Paxton, 2000:240).

The second major reform consists in the State Second Pension. The State Second Pensions replaced SERPS in April 2002. It is designed to provide a better pension for the low paid, and to eliminate the need for means-testing pensions by 2050. Employees can contract out of S<sub>2</sub>P (as previously from SERPS) provided they have an occupational pension, a private pension, or a Stakeholder Pension.

The third reform consists in the creation of Stakeholder Pensions in April 2001. The target group for Stakeholder Pensions is full-time workers whose annual earnings fall between £9,000-£18,500 a year (below the average income but above the low wage level). Additionally, members of occupational pension schemes who earn less than £30,000 a year can take out a Stakeholder Pension to enhance their entitlement by making additional voluntary contributions. Whilst Stakeholder Pensions are designed to serve in place of an occupational pension or as the equivalent of a (defined contribution) private pension, they are different from the conventional private pension, based on two principles:

Access: Employees (in the income range) can take out a Stakeholder Pension with any approved provider, whether directly (eg. with a bank or insurance company) or indirectly (through a membership organisation such as a trade union or an employer-negotiated scheme). Neither employees nor employers are compelled to undertake a Stakeholder Pension, but employers (with five or more employees) who do not run an occupational pension scheme are required (since October 2001) to provide employees with access to a Stakeholder Pension.

Standards: Providers of Stakeholder Pensions have to register with, and are monitored by, the Occupational Pensions Regulatory Authority (OPRA). The maximum level of management charges by the Stakeholder provider (equivalent to commission, or 'up front' charges on conventional private pensions) are set at 1%, with no charges for entry, exit, or missed contributions. Employee contributions can be as low as £20 a month; employees can stop, restart, and vary contributions without penalty; and an individual's fund can be transferred between Stakeholder schemes without penalty. Non-employees can contribute up to £3,600 a year.

In short, Stakeholder Pensions are very similar to (defined contribution) private pensions, except that they are more closely regulated by government agencies, particularly with regard to management costs and the relative uniformity of the pension product offered. They are designed to be attractive to those who do not have an occupational pension and have been deterred from entering the private pensions market: middle-income earners, those with an interrupted employment record, and those distrustful of private pensions. These arrangements were relatively unsuccessful, since few companies were willing to provide Stakeholder pensions on the terms required. Current policies imply that mid to lower-paid people will rely mainly on State Second Pensions.

The fourth reform is Pensioners' Credit, a new provision by which for every £1 of income above the BSP level attracts a 'Savings Credit' of 60p until the pensioner's income---excluding MIG---is £100 per week (as at 2003).<sup>1</sup> The upper limit for Pensioners' Credit is an income (excluding MIG) of £135 per week MIG and Pension Credit work in conjunction with tapers for both.

## **5- Policy debates in 2002: the decline of the Final Salary Pension Scheme**

Despite the emphasis on addressing the problem of pensioners' poverty through the adoption of tax credits (such as the pensions credits) and the MIG, there has been a shift away from the state to employers and employees in providing adequate provision for future retirees. The decline in the level of Basic State pension over 20 years and the termination of the State Earnings Related Pension Scheme mean that the burden of retirement income security now falls on private, i.e. employer-contribution schemes. These fall into three broad groups: occupational pension schemes, personal pension plans, and stakeholder pensions. The termination of the SERPS happened in April 2002, at a particularly critical time. In the past, many companies offered high quality occupational schemes offering retirement benefits related to final salary - so-called defined benefit (DB) schemes, typically negotiated by trade unions. These applied to about three-fifths of employees. This has recently changed: employers are replacing final salary schemes with defined contribution (DC) plans whether occupational DC, group personal pensions or stakeholder. The numbers covered by DB schemes has fallen from 5.6 million in 1991 to 3.8 million in 2001. As the Trade Union Congress points out: "there was an understanding that making provision for retirement was a shared responsibility between the state, individuals and their employer. This social contract is now under threat with the state's retreat from pension provision being matched by employers headlong rush away from DB pensions... If current trends continue the UK is heading towards a system in which DC dominates." (TUC 2002). The problem is that in DC schemes the risk rests with employees since the value of their pensions depends on investment performance. Employers pay much less in DC schemes than they do in a DB pension. According to the TUC, "they typically pay almost two thirds less. The average long-term employer contribution is 15.4%, in money purchases the figure is just 6%" (TUC, 2002). The saving to industry is substantial, estimated at an annual £18.5 billion. Employers guarantee only what gets saved towards a pension, not what is actually paid on retirement. Individuals effectively builds up their own savings fund which they will use to buy an annuity on retirement. The investment risk lies solely with the individual scheme member. If the stock market dips before their retirement, and their pension investment shrinks as a result, they will not be able to buy as large a pension. This is exactly what is happening in the current stock market collapse. The move towards DC pension schemes means that at present future retirees will get lower pension provision due to the deficiencies in DC schemes, especially the low amount of employers' contributions. The challenge is to ensure that those workers without access to occupational pensions are in future given access to a quality pension. Stakeholder was intended to achieve this objective but without a much more significant employer's contribution this goal is unlikely to be fulfilled.

Policy actors, especially trade-unions and employers, hold radically different views over this issue. This gave rise to a fierce controversy and talks about the pensions crisis over the past six months.

### **The employers standpoint**

The shift away from DB schemes has been justified on the grounds that increased life expectancy makes it more expensive for employees to provide generous pensions schemes. Business interest argue that pensions are becoming increasingly expensive for companies to run because of rising life expectancy and unnecessary regulations.

These complaints are aimed primarily at the Minimum Funding Requirement (MFR)<sup>2</sup> and Financial Reporting Standard 17 (FRS 17). MFR was designed to define the solvency level of pension funds, with quarterly reporting, but has the effect of encouraging pension funds to invest in ('safe') gilt-edged stocks, which distorts the gilts market, deters investment in venture capital products, and generally ensues in lower returns on investments. The government agreed to review the MFR requirement, with the consultation period ending 30 January 2001. No major revision of MFR has yet been announced.

The new accounting standard FRS 17<sup>3</sup> requires pension funds (including firms with occupational pensions' schemes) to report the assets and liabilities of their pension fund annually in company accounts. Confederation of British Industries (CBI) pension spokesman has declared that FRS17 was " a genuine issue" (Guardian, 11 May 2002). Aside from its effects on occupational pension schemes, such transparency damages pension funds, it is argued, by precluding fund managers from 'smoothing' accounts between periods of profits and deficits, introducing more volatility into pension funds as policy holders respond to balance sheets, and potentially undercutting dividends.

### **Trade-unions**

Since the 1980s pension reforms by the Conservative government until the late 1990s, the Trade Unions Congress (TUC)'s position on pensions centred around two demands: to restore the indexing of the Basic State Pension by average earnings (rather than prices), and to restore the full value of SERPS. Along with the Labour Party, the TUC was opposed to the introduction of private/personal pensions by the Conservative government (Bonoli 2000: 78-79). But, along with the 1997 (New) Labour Party, the TUC and some unions took up Stakeholder Pensions with some enthusiasm---but without giving up the demand for the serious uprating of the Basic State Pension.

Relations between the (New) Labour government and the trade unions have been no less tense than during previous Labour administrations, with the difference that New Labour has been set upon distancing itself from the trade unions. By early 2000, the TUC was restive over a number of issues (eg. minimum wage; workers' consultation rights; union recognition) - and then outraged by the 75 pence increase in the Basic State Pension in the 2000 budget. Thereafter, the TUC has been contesting the government, starting with the showdown at the (July) 2000 National Policy Forum in which the TUC compelled the government to agree to a debate on pensions' policy, with particular reference to 'pensioner poverty', at the September 2000 party conference. The Chancellor signalled a significant increase in the Basic State Pension (in the 2001 budget) but refused to concede indexing to 'average earnings, or inflation, whichever is greater'.

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<sup>2</sup> Introduced in the 1995 Pensions Act to protect pensioners against a repeat of the Maxwell pension fund scandal.

<sup>3</sup> Introduced in 2001 by the Accounting Standards Board, FRS 17 is due to be in operation across the industry by 2004.

Trade unions have failed to win indexing of the Basic State Pension by average earnings. They seem to have little influence on the government. However, S<sub>2</sub>P, Stakeholder Pensions, the Minimum Income Guarantee, and the Pensioner Credit, all focus on improving the pension position of the lower paid, which meets some of the union demands. Whether the policies result from union pressure or from Gordon Brown's mission to raise the living standards of the poorest is an open question.<sup>4</sup>

### **The government**

The government's approach regarding the pension crisis seems to be to wait for a bounce back in the stock market, which would raise the value of pension funds, and to increase regulation of the pensions industry. The government has defended MFR and FRS 17. Moreover, there has been a move away from the traditionally benevolent attitude of New Labour towards employers. The former Work and Pension Ministers, Alistair Darling accused British businesses of closing pensions schemes in order to cut costs. He also stressed that many companies were wrongly blaming closures on the new counting regulation, FRS17, when in reality the reason was that firms wanted to cut costs. (Guardian 2002). No decision is likely to be made before the end of July. The Randall review recommended compulsory employer contributions - popular with the TUC, but ignored by government. The Pickering<sup>5</sup> review has delivered its report in July 2002. It recommended that employees should be required to join an occupational pension scheme as part of their work contract with their future employer and regulations should be relaxed, especially in relation to the heritability of pension rights by spouses, to encourage provision. However, given the controversial nature of its proposals, especially with respect to female pensioners, it is unlikely to be implemented.

### **Conclusions**

Whether the government is responsible for the demise of defined benefit pension schemes is an open question. However, it is clear that the privatisation strategy is currently under threat: faced with greater longevity, higher costs, a tougher regulatory environment, and lower profits, the corporate sector is simply walking away. Consequently, employees previously covered by an occupational pension scheme are poised either to 'contract in', or fall back, on the (S<sub>2</sub>P) state scheme (30/1/02)<sup>6</sup>, or remain in DC occupational schemes. More, rather than fewer, people will be dependent on state pension provision. In short, the policy strategy is backfiring in terms of encouraging the expansion of good private provision and new policy proposals are expected soon.

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<sup>4</sup> The general strategy of improving the lot of the poorest is very much Brown's policy, supported by Alistair Darling, which is imposed on the government by virtue of the Chancellor's commanding position.

<sup>5</sup> Headed up by Alan Pickering, former chairman of the National Association of Pensions Funds, the industry's main lobbying body, and Ron Sadler, former Lloyd's insurance market chief executive.

<sup>6</sup> Numbers are imprecise, but estimates put the number of employees 'contracted out' (currently, of SERPS and thus in occupational schemes or personal pensions) at around 10-11 million; some 3 million, at least, are expected to 'contract in' to State Second pensions during the next five years.

## **Long-term care**

Long-term care represents a real challenge for the current government due to the old-age dependency ratio, although the need for reform is somewhat less acute than in other European countries such as France (life expectancy is close to the OECD average). This being said, the UK is now faced with the challenge of the fast growth of the old-old population (85 years and over). Projections about the costs of long-term care are very sensitive to estimates concerning the growth of very-old age. Glennerster (1996) has estimated that about one-half of all women and one third of all men aged 65 can expect to receive long-term care, both residential and domiciliary, at some time before they die. If this is correct, long-term care needs can be expected to rise sharply when the first cohort of "baby boomers" retires. Recent policy developments have started to reflect these increasing long-term care needs. In 1999 total current expenditure on long-term care for elderly people was estimated at £11.1 billion. The current public share was 64% with the private share being 36%. The NHS accounted for 36% public expenditure. Three quarters of total expenditure was spent on residential care and one quarter on domiciliary care (The Royal Commission on Long Term Care, 1999). A wide range of services covers long-term care needs. Informal care, i.e. care by family and friends, key social services, such as home care, day care and meals, health services, such as hospital day care, community nursing and private domestic usually meet the needs for long-term care of the elderly. However, these services are costly, especially residential care and NHS long-term care.

This section first considers the pressures on long-term care, most notably the growth of old age and the decline of the informal (i.e., mainly female) carers. Second, it shows that the shifting boundaries between health and social care are a deep-rooted problem for future policy options and has not been satisfactorily addressed by governments since the 1980s. Third, it examines the Conservative legacy (community care reforms) in the 1990s. Fourth, it looks at New Labour policies and assesses the extent to which there is a pattern of continuity between the Labour and Conservative administration concerning long-term care. Evidence supports the case for the continuity thesis despite the introduction of new concerns with equity and treatment of ethnic minorities. Since the 1980s, governments regardless of their political orientations have encouraged better co-ordination between health care services, i.e., the NHS, and social care services administered by local authorities. The dominant theme of community care reforms was a shift towards community and home-based provision of long-term care. The rationale behind this shift is cost-containment. The aim of pluralist reforms (the so-called mixed economy of care) is to spread funding responsibilities and to shift more responsibility from the state to the individual and family, from the public to private sector (Healy, 2002). Moreover, both the Conservative and the Labour governments have tried to restrict the claims of older people upon the state to needy people, thus targeting scarcer resources to old people on very low-income.

## II- Pressures on long -term care: old-age dependency ratios and the issue of costs

The 1999 Royal Commission on the Finance of Long-Term Care (Cm 4192) proposed that long-term should encompass dependency that is on-going and permanent. Two measures are used to define dependency: instrumental activities of daily living (IADLs) and activities if daily living (ADLs). These have been used by social services in assessing elderly people needs for long-term care. IADLs relate to domestic tasks, i.e. shopping, cleaning, laundry, whereas ADLs relate to personal care (i.e., self-care such as bathing and feeding). The concept of care is also problematic because it includes several elements of service provision; different authorities include or exclude different components. The Royal Commission focused on domestic support and personal care. Domiciliary care is provided in home whereas residential care (or institutional care) is provided in residential settings, i.e. nursing homes or hospitals.

Three main factors will shape future demand for social care.

First, old-age dependency is expected to rise, thus making the expansion of long-term care an absolute necessity in the period 1995-2031: "Between 1995 and 2020, using medium variant projections, the 80-plus age group is projected to grow by 34% in the UK". (Healy, J., 2002: 2). The growth of the number of the very old makes a big difference, especially on institutional (residential) care. Public spending as a proportion of the GDP on long-term care could reach 1.8% by 2010 (see table 4). Almost half the growth in overall numbers is expected to occur in the period 2020 to 2031. Long-term care would need to expand by around 61% between 1995 and 2031 to keep pace with the rising number of elderly if no account is taken of other factors.

**Table 4: projections of publicly-financed long-term care as a share of GDP to the year 2020, UK**

Dynamic projection which assumes that past trends in disability rates and institutionalisation rates will continue in the future					Dynamic projection which assumes that past trends in disability rates and institutionalisation rates will not continue in the future			
	1996	2000	2010	2020	1996	2000	2010	2020
Home help	0.36	0.34	0.33	0.37	0.36	0.36	0.38	0.44
Institutions	0.69	0.72	0.75	0.86	0.69	0.72	0.75	0.86
Total	1.05	1.06	1.08	1.22	1.05	1.08	1.13	1.30

Source: OECD 1999, *Reforms for an ageing society*, p. 64.

If the numbers of very elderly people (aged 85 and over) grew by only 1% more than expected, long-term care would need to expand by 92% rather than 61% (Personal Social Services Research Unit or PSSRU, Research Bulletin, 1999). Table 5 shows population projections and how these are likely to look in the first half of the 21<sup>st</sup> century. The share of total population accounted for by the over 65 is projected to increase from one in seven to one in four. The overall trend is projected to continue until about 2030 when the total population stops growing. By 2050 the biggest

relative increase in older people is expected in the number of those aged 85 and over - "the oldest old". (Royal Commission, 1999:22).

**Table 5: UK population projections by age and proportion (all persons: millions)**

Year	Under 65	65-74	75-84	85+	65+	Total	65 + as % of total
1995	49.4	5.1	3.1	1.0	9.2	58.6	15.7
2001	50.3	4.9	3.2	1.2	9.3	59.6	15.6
2011	50.9	5.5	3.3	1.3	10.1	61.0	16.5
2021	50.3	6.6	3.9	1.5	12.0	62.2	19.2
2031	48.4	7.7	4.8	1.9	14.4	62.8	22.9
2041	47.0	7.4	5.6	2.3	15.3	62.3	24.6
2051	46.3	6.5	5.3	2.9	14.7	61.0	24.1

Source: Government Actuary's Department

Second, the availability of informal care (provided by family, friends and neighbours) is likely to decline due to the combination of two mechanisms: increased female participation in the labour force and growing number of single/separated /widowed elderly persons. More women are going out to work, affecting traditional gender roles of caring for children or family members. In 1999, it was unclear whether greater female participation in the labour force would lead to a substantial reduction in the supply of informal care (Royal Commission, 1999). Likewise, the increase in the proportion of elderly people expected to be single /divorced /widowed is likely to reduce the supply of informal care (mostly provided by spouses and partners). In addition, a single person is more likely to be at risk of dependency, other things being equal, than a person living in a couple.

Third, the current Labour government expects that future retirees will be much more demanding than past generations, although there is not strong evidence to support this thesis. Users of public services may increasingly be influenced by an ever more consumerist culture, where services are open 24 hours a day, 7 days a week, not just in local communities but also via the telephone, digital TV and on-line. This trend could put an upward pressure on unit costs.

### **1- The conflict between social care and health care**

As Jane Lewis points out (Lewis, 2001), there has always been a conflict between the centrally funded NHS and locally run social services. NHS offers free services for old severely incapacitated people while social care (community care) can be charged for. Under Part III of the 1948 National Assistance Act, local authorities were responsible for providing residential accommodation together with a range of domiciliary services, including home nursing and home helps. The 1946 NHS Act made the health service responsible for both acute and continuing care. In 1975, home nursing was transferred to the health authorities. The definition of what constitutes health and social care has shifted over time and remained a major bone of contention:

" The boundary between health and social care was set in stone by central government in the immediate post-war years and the result was a constant battle between the two services over the kind of services they would meet." (Lewis, 2001:344). This division of responsibilities did not solve the problem of old dependent people who needed nursing and institutional care without constant medical attention.

The community care reforms of the early 1990s represent a major turning point for long-term care in the UK.

### **3- The 1990s community care reforms**

During the early 1990s, debates on long-term care focused primarily on its organisation. The report by Sir Griffith (DHSS, 1988) recommended that local social services authorities should assess the community care needs of their locality and provide services that would be more responsive to user's needs and demands. The White Paper *Caring for People* (DoH, 1989) endorsed these proposals, which were enacted in the NHS and Community Care Act 1990. The community care reforms were primarily concerned with changing the provision of care, shifting provision away from institutional towards community care, i.e. provided either by local authorities or by the independent sector. The reforms encouraged local authorities to provide care in the elderly person's home as far as possible, instead of placing old people in residential care, which was also much more costly. The Department of Health (DoH) did not attempt to define social care in a rigorous fashion:

It accepted that in some cases it may be difficult to draw a "clear distinction between the needs of an individual and for health and for social care". Social care was care provided by the community, and could potentially be means-tested in an attempt to curb social security costs. The will to cut down social expenditure due to the growth of old age was the main concern behind the 1990s. Service provision or improved service delivery was not the main rationale for reform. Instead, local authorities were encouraged to contract out nursing and domiciliary services with the private sector by virtue of the new managerialist approach. Value for money became the mantra of the Conservative administration and was one of the main rationales for reform. There was also the hope that health and social care professionals would work in partnership and evaluate the patient's needs on the basis on a multidisciplinary, cross-professional approach. This proved to be an unrealistic goal given the long-standing rivalry between health and social care professionals.

The community care legislation introduced a Residential Allowance as part of Income Support paid by DSS from central funds, but only if an individual was placed in an independent sector home. The Allowance appeared to make independent sector residential care cheaper for the local authority than its own homes, thus providing incentives for local authorities to contract out residential care. Indeed, the residential allowance was not available to those placed in Local Authority homes (Royal Commission on long-term Care, 1999).

The 1990 Act was implemented in full in 1993. The transfer of responsibility for aged care to the social services departments implied that individuals above an income and an asset limit must pay residential fees. Before 1993, NHS beds were free to the user. Nearly 30 per cent of aged residents paid full fees (Healy, 2002:12). In short, the UK had introduced a user charge for people in old age in the early 1990s.

What were the results of the community care legislation and policies?

First, the community care reforms decreased the role of the NHS in providing long-stay in hospital. The decrease in the number of continuing care beds in the NHS had transferred a section of long-term care from the NHS to means-tested care in nursing

homes: NHS officers regarded the 1990 Acts "as good grounds for getting rid of their long-term care responsibilities as soon as possible." (Lewis and Glennerster, 1996: 16). Resources were transferred from the public sector to the private sector. In the 1970s, 69% of all long-term care in institutional settings for older, physically disabled and chronically ill people was provided within NHS or local government facilities. By 1994, those proportions had switched to 24% and 76% respectively.

Second, the community care legislation introduced a user charge. This policy was very unpopular as people felt the state had broken its commitment to provide long-term care free at the point of delivery which had been part of the wider social contract under which the post-welfare state was founded (Wistow, 1996, and Healy, 2002). The expansion of independent sector provision was funded by through social security payments which were linked to institutional but not domiciliary care, and payable following a test of individual assets/incomes but not their need for care. As a result, the number of residents supported by the Department of Social Security rose from 16,00 to 281,200 between 1982 and 1993 and the cost of supporting them rose from £39 million to £2, 575 million over the same period (Wistow, 1996, and Healy, 2002). Of the 1994 home residents in 1994 (compared with 27,000 in 1980), the NHS funded only 5%. Of the remainder, 24% were meeting their own costs and 71% were funded by social security or local authority budgets, in some cases having paid their own nursing home fees until they had spent down to the means threshold. 30 to 40,000 elderly people a year were selling their homes to pay for long-term care in the early 1990s.

#### **4- 1997-2002: New Labour policies**

The New Labour government elected in May 1997 pledged in its manifesto to establish a Royal Commission to consider financing of long-term care. The Sutherland Commission (1999) terms of reference are:

"To examine the short and long-term options for a sustainable system of funding long-term care for elderly people, both in their own homes and in other settings" (Royal Commission on Long-Term Care for the Elderly, Terms of Reference, Cm 4192). Evidence increasingly suggested that community care policies were not working, both from a provider and a user point of view. First, the community care legislation did solve the problem of health and social care boundaries. There was still considerable dispute between the NHS and social services departments responsible for administering - under partnerships with private or voluntary bodies- community care. Policies and service provision were tremendously complicated and generated a great amount of confusion regarding issues such as responsibility for service provision and accountability. Second, the mixed economy of care in practice aggravated inequity of treatment at the national level, as pointed out by the Sutherland Commission:

"Under the current system the amount of choice available depends on what is offered locally and the state of the Local Authority Budget. In some areas domiciliary care is charged for, in some it is not charged at all. Different levels of service are available in different areas." (Cm 4192: 41).

The majority report argued that the charges met by older people were resented for good reasons. It made a distinction between living costs (food, clothing and so on), housing costs and personal costs (due to a break of intimacy for the person in need of personal care). The Commission recommended that personal care should be no longer subject to means-tested. Instead, it should be financed through general taxation: "The

Commission's recommendation is that personal care should be available to individuals who need it, after an initial assessment... This would mean a radical restructuring of the current residential care means-testing, first to take personal costs out of the system altogether, and secondly to apply the current means-testing limits and scales to living and housing costs as a new form of co-payment." (Cm4192: 65).

The second main proposal the Royal Commission was to integrate the health and social care systems and to create a seamless service: "Measures should be taken to bring about increased efficiency and improved quality in the system, including a single point of contact for the client with devolved budgeting, budgets shared between health, social services and other statutory bodies and greater integration for aids and adaptations." (Sutherland Commission, p.xx). The minority report essentially rejected the proposal to tax-finance care for all as too costly.

The government rejected the majority report proposals, mainly on the grounds of expense (Glennerster, 2000). The Health and Social Care Bill introduced in early 2001 excludes nursing care but not personal care or living care costs from care fees. It allows an initial three months in residential care before assets are subject to means-testing (thus enabling a rehabilitation period and return home); and a local authority can mortgage rather than sell a person's house rather than pay for long-term care (Healy, 2002:12). These provisions have been implemented since October 2001. More recently (July 2002) the government has proposed direct payments for frail old people who cannot be discharged from hospital because care services are unavailable to allow them to purchase their own care and free the beds.

## **5- Policy debates**

### **The Labour government**

There is a pattern of continuity between the Conservative and New Labour policies since both administrations clearly attempted to shift responsibility for long-term care away from the state towards the families, the individuals and the community. This strategy implies some form of state retrenchment. The 2001 White Paper Opportunity for All repeats the government's commitment to independence and autonomy for old people in rather vague terms. The current policy discourse is based on three main goals:

- to ensure independence and social participation of service users in order to promote independence, autonomy and self-respect
- to promote in home care rather than care in residential homes
- To increase the number of volunteers working with older people "as part of our commitment to get a million more people involved in their communities and to have made significant progress towards this goal by 2004." (DSS 2001: 126).

Despite this pattern of continuity between Conservative and New Labour policies, New Labour has shown some degree of innovation in three key areas. First, the degree of central government control is greater than ever under New Labour. The government has established a tight regulatory framework for controlling local authorities finances and performance. The White Paper *Modernising Social Services* (Cm 4169) set out the new arrangements to assess the performance of each council with social services responsibilities in order to help deliver the required improvements

in the "Best Value" regime. There is now a greater emphasis on planning under the best value regime. Second, New Labour is more concerned than its predecessors with quality of services for users and carers, most notably the fairness of provision, responsiveness of services to individual needs, and equity. Third, New Labour had put on the agenda the issue of older ethnic minorities and has taken voluntary action to improve cultural awareness in services offered to black and minority elders.

### **Age advocacy groups**

The Social Policy Ageing and Information Network (SPAIN) group comprises Help the Aged, Age Concern, Centre for Policy on Ageing, Arthritis Care, Alzheimer Society among many others. The most influential organisations are Age Concern and Help the Aged. Age advocacy groups are opposed to co-payments for personal care and expect anomalies to continue between the blurred dividing line between nursing and personal care. A SPAIN report published in January 2002 explains that "social care rationing puts older lives at risk. The report shows that over one million older people are struggling to access care, both in their own homes and in residential care, due to the Government chronic underfunding of social care."<sup>7</sup>

In short, despite greater emphasis on equity and fairness under New Labour, the UK has moved towards requiring older people to pay more towards their own care in old age since the mid-1980s. This policy is very unpopular but there is no clear indication that this trend will be reversed in the future. Recent policy developments indicate that, despite the fact that old-age dependency is not such an acute problem in the UK in comparison to other European countries, the trends towards rationing and means testing will continue.

### **III- Employment policies**

The UK experienced relatively low unemployment by European standards during the 1990s. As in other European countries, employment rates among men have tended to decline, while they have risen among women. Youth unemployment is higher than that of older groups, but remains below the European average. Job-search requirements and availability for work have become central in the 1990s.

Full employment has been on top of the governmental policy agenda since New Labour came into power in 1997. The new government has adopted a work first approach coupled with the use of sticks (sanctions) and carrots (in work benefits, enhanced training opportunities). The core belief of New Labour policies is that paid employment is the best route out of poverty. This section first examines labour market trends and current pressures for change. It then analyses Conservative employment policies. Third, it presents New Labour employment policies and its results. Fourth, it looks at the current reforms undertaken by the government since April 2001. Fifth, it examines the evolution of public policy discourses and debates concerning the notion of employability.

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<sup>7</sup> "Social Care rationing puts older lives at risk", press release, available on the Age Concern's website.

## 1- Trends in the labour market

The basic features of the English labour market can be summarised as follows (see also table 6 below):

- The British economy was already in decline in the early 1970s and was hit by the recession earlier - and harder- than its European counterparts;
- The British unemployment rate (5% in 2001) is below the European average, arguably due to its flexible labour market;
- Since the mid-1960s, the trend in employment rates for men has been downwards. Male employment has been reduced from 94% in 1959 to 79% in 2000, a fall of 15 percentage points. By contrast, employment rates among women rose from 47% to 69 % between 1969 and 1999;
- Youth unemployment, albeit significant, is below the EU average. The EU average unemployment rate for young people aged 15/16 to 24 was 18.3% in 1999 versus 11.5% in the UK. Italy had the highest youth unemployment rate (32.9%) and Austria the lowest (5.9%).

**Table 6: Employment and Unemployment in the UK: 1991 - 2002**

	1991	1995	2000	2002
Women				
Unemployment rate:15-64	8	7	5	4
15-24	12	13	12	10
Employment rate: 15-64	61	62	65	65*
15-24	59	54	54	na
Men				
Unemployment rate: 15-64	10	10	6	6
15-24	17	18	14	13
Employment rate: 15-64	78	75	78	72*
15-24	63	59	58	na

\* 2001

Source: EC (2001), (2002).

In Spring 2000 there were 36.3 million people of working age in the UK, of whom 27.0 were in employment. According to Social Trends 2001, no 31, this is the highest number of people in employment since the series began in 1959. The number of people unemployed is linked to the economic cycle. The latest peak in unemployment occurred in 1993, when it reached just under 3 million. Since 1993, the number of people unemployed has fallen to 1.6 million people in spring 2000, a rate of 5,5% (compared to 8,5% in France for instance). However, according to Walker and Howard, unemployment in 1999 was higher than in 1971 despite 8 years of economic growth. Claimant unemployment was 1.14 million in 1999 compared with 690,000 in 1971.

Unemployment is not equally distributed across the UK labour force. Age, qualification gender, ethnicity and location all have an impact on the likelihood of becoming unemployed and the time people spend out of work. One of the most striking features of the British labour market is that men are more likely to be unemployed than women, even at times of high unemployment. For instance, the fact

that the 1993 recession affected men more than women is in sharp contrast to the French situation, where women were more affected by the economic recession than their male counterparts.

However, **the most important trend over the past two decades is the development of youth unemployment.** Since 1994 the situation has improved: table 6 retraces unemployment rates by gender and by age since 1991. Young people are much more likely than older people to be unemployed. Over the last 10 years, the gap between the unemployed rates for 16 and 17 years old and the rates for other age groups has widened for both men and women.

## **2-The Conservative policies: 1982-1997**

In keeping with the explicit market orientation of the Conservative government, policy during the 1980s was essentially concerned to tackle unemployment by freeing the market in labour. Benefits were cut back, eligibility conditions tightened and requirements to pursue work strengthened. A series of new laws between 1980 and 1993 ended the closed shop, introduced postal ballots for the election of leaders and secret ballots for strike decisions, weakened the capacity to press for union recognition, and withdrew immunity from prosecution for those striking for any reason other than a strictly-defined trade dispute and for secondary pickets (Savage et al, 1994, p.101-5). Membership is now just under 30 per cent of the civilian labour force as against 53 per cent at the post-war peak in 1979 (ONS, 1997, 4.20; 2000, 4.27). Some limited training schemes for young people were established, most importantly the Young Training Scheme in 1983, but these were unable to cater for the numbers of jobless people or to provide training that made a major difference to chances of employment. Only one-fifth were completing the available training courses by 1992 (ONS 1999, Table 3.23).

These policies can be understood in terms of 'negative activation', since they enhanced work incentives by cutting welfare rights, with the intention of increasing employment by reducing the reservation wages of unemployed people. Policy-makers stressed issues of welfare dependency. The incoming secretary of state for social security in 1988 extolled the work of Lawrence Mead in his first speech and declared: 'welfare recipients need to be moved away from dependence and into independence' (Timmins, 1996, 448). Similar policies continued in the early 1990s. After the Portillo Review of public spending in 1993, carried out with the intention of identifying areas where spending can be cut or 'from which the state can withdraw altogether' (Hansard, 1993: col 683), National Insurance unemployment benefit was replaced by Jobseeker's Allowance in 1996. This benefit is time-limited for 6 months (renewable once) and conditional on following an approved programme of job-seeking activities.

Jobseekers's Allowance (JSA) replaced unemployment benefit and income support for unemployed people from 7 October 1996. There are two different types of JSA. Contribution-based JSA is paid to people who have satisfied the National Insurance contribution conditions; income-based JSA is paid to claimants who pass a means test. To qualify via either method, the claimant must be under pensionable age and cannot be in work for more than 16 hours a week but must be capable of starting work immediately and be looking actively for employment. They also must have a current agreement with the Employment Service. If a claimant takes down a job offer without good reason, he may be denied further payments of JSA. Contribution-based

jobseeker allowance can be paid for up to 6 months. Claimants cannot receive income support (IFS, 2000). Those who do not qualify for contribution-based jobseekers' allowance may be able to receive income-based job seekers allowance if they have a sufficiently low income. Claimants cannot receive income support and must not be working more than 16 hours a week. Income-Based Jobseeker allowances are paid as long as the conditions are met (unlike contributory JSA). Benefits for unemployed people represented 3% of total social expenditure in 2000 (DSS, 2000).

Retrenchment measures were specially targeted at young people. Youth unemployment has been an object of concern since the early 1980s. The Manpower Services Commission set up a benefit-linked Youth Training Scheme in 1983. From 1987, young people who refused training placements could lose Income Support entitlement. In 1988, all entitlements for 16 to 18 year olds were withdrawn on the grounds that they would be in education or supported through Youth Training Placements.

### **3 - New Labour policies**

The Major government described the JSA as a tough regime aimed at the workshy, with new benefit sanctions and more checks on availability and active search for employment. New Labour has strengthened this trend since 1997. New Labour, returned in 1997, consciously stressed activation as the centrepiece of its policy for unemployed people: 'The government's aim is to rebuild the welfare state around work'; 'work for those who can, security for those who cannot' as the 1998 Green Paper stated (DSS, 1998, 1 and 23). The New Deal programmes launched in 1998 are a manifestation of a new contract between the citizens and the state with the government's obligation to provide opportunities for claimants to become more proactive matched by an obligation on the part of benefit claimants to accept training, work or education offers (Cm 3805, 1998). This approach formed the basis for the five New Deal programmes for various vulnerable groups of workless people, launched from 1997 onwards. These programmes instituted a compulsory regime of training and work placement in return for benefits (effectively a workfare/trainingfare scheme) for young people and for those over 25 who have been unemployed for more than two years. It also included elements of compulsion and voluntary participation for single parents, those over 50, partners of unemployed people and disabled people.

New Labour was eager to promote work and work ethic in 1997. According to Tony Blair, low productivity and growing inequality have "roots in a workforce who is ill equipped for the contemporary global economy. Employment policies are closely linked with benefit, tax credit and minimum wage policies for low paid people, designed to 'make work pay' and enhance incentives. These are discussed in Section V.

The New Deal is all about moving people from social security into work."<sup>8</sup> The welfare to work-schemes introduced by the New Labour administration borrowed certain features of American welfare reform adopted in 1996 by the Clinton administration. The New Deal was very much influenced by the American debate and tried to put an end to welfare dependency through work and training, especially for lone parents and young people. Following the American example, New Labour

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<sup>8</sup> Hills, J., 1998, *Thatcherism, New Labour and the Welfare State*, CASE paper, London: Centre for analysis of Social Exclusion, LES.

attempted to cut benefits for lone parents but had to withdraw this measure due to the revolt of Labour backbenchers.

There are six new deals under the current system.

- The New Deal for under-25s is a compulsory scheme for all under 25 year old unemployed claimants that begins after 6 months of unemployment. It consists of a period of intense personal advice and assistance followed by one of 'options linked to employment experience and training. Strong priority has been given to the under 25 group as table shows. They constitute only 9% of the welfare target group but account for 77% of the spending on New Deal;
- The New Deal for Long-term Unemployed (NDLTU) is a compulsory scheme for people aged 25 and over who are unemployed for over 2 years. It consists of a period of intensive job reorientation followed by referral to training or work experience places;
- The New Deal for Lone Parents is targeted at lone parents whose youngest child is five and a quarter but others can benefit from it as well. It consists of personal advice and assistance with job search and a limited training budget with associated childcare. Since April 2001 lone-parents must have a work-focused interview with their personal advisor.
- The New Deal for Disabled People is targeted at all working-age disabled or sick claimants and consists of personal advice and assistance.
- The New Deal for Partners of Unemployed consists of personal assistance with work for the potential earner in an unemployed household. This New Deal will become compulsory for partners under 25 without children.
- The New Deal for those over 50 consists of personal advice with employment and a one year in-work subsidy of £60 a week and a training grant (Evans, 2001).

The system institutionalised a division of responsibility between passive benefits and active employment organisations. The Department of Social Security had responsibility for income maintenance agency by means of an ad hoc administration, the Benefit Agency, while the Department for Education and Employment (DfEE) has responsibility for education, training and employment policy. The Benefit Agency (BA) makes benefit payments while employment service (ES) provides employment services. This policy map is being redrawn since 2001, with DSS renamed the Department for Work and Pensions and DfEE the Department for Education and Skills, to stress the work-orientation of the new arrangements.

To date, the UK has exceeded the Lisbon and Stockholm employment targets: almost three quarters (74,6%) of the UK's working age population are in work, with employment having reached a new record of 28.4 million at the end of 2001. (National Employment Plan, 2002:2). The most successful scheme is the New Deal for Young People. The New Deal helped some 250 thousand young people into jobs in the first year of operation, substantially more than any similar UK scheme in the past. Analysis by the National Audit Office (NAO), taking into account dead-weight and substitution effects, estimated that the scheme reduced unemployment by between 25 and 45 thousand and increased youth employment by between 8 and 20 thousand a year (NAO, 2002, 6). Thus activation policies for this group can be seen as achieving a substantial success, compared with previous UK programmes. The success of the NDYP also reflects the spending priorities of the British government as table 7 below shows. The picture is more mixed as far as other programmes are concerned. However, employment rates for lone parents, older workers, ethnic minority people and people

with a long-term illness or disability are all lower than the rate for all people of working age. Improvements have been made for all these groups but remain much less impressive than the records on New Deal for Young People. The employment rate since 1997

- For older workers has increased from 64.7% in 1997 to 68.3% in 2001;
- For minority ethnic people has increased from 55.1% in 1997 to 58.25 in 2000;
- For lone parents has increased from 45.6% in 1997 to 51.5% in 2001; and
- For people with disabilities has increased from 43.5% in 1998 to 47.4% in 2001. (DWP Cm 5260, 2001: 82).

New Deal evaluations thus report differences between groups of clients in terms of their activities and the outcomes achieved. In particular, ethnic minority people achieve less successful outcomes than white participants except in the New Deal for Young People. Aware of this problem, the Department of Work and Pensions has set up new outreach provision located in urban areas of the country with the highest number of ethnic minorities (DWP Cm 5260, 2001:83). In fact, the employment barriers of certain New Deal participants are such (health and personal issues, illiteracy) that the New Deals cannot suffice to address them. Employers' recruitment practices or cultural norms reinforce this trend, as the problems faced by ethnic minorities make it clear (Hasluck, 2001: 233).

**Table 7: Original spending priorities of the British New Deal**

New Deal	Target caseload 1997		Spending	
	Million	% of total	Budget 1997-2002	% of budget
Under-25s	0.4	9	2,620	77
Over 25s	0.5	11	50	2
Lone parents	0.5	12	190	6
Disabled	0.9	20	200	6
Partners	0.22	5	60	2
Over 50s	2.0	44	270	8
Total	4.52	100	3,390	100

Source: Evans, M., 2001, *Welfare to work and the organisation of opportunity, Lessons from abroad*, Centre for analysis of Social exclusion, London: LSE.

#### **4-Recent policy reforms**

A new Department of Work and Pensions was created in June 2001. The future of New Deal was set out in the 2001 Employment Green Paper, *Towards Full Employment in a Modern Society*. The Green Paper proposed three broad developments to help people into work. These proposals were:

- To establish a new agency - Jobcentre Plus- bringing together the Employment Service and parts of the Benefit Agency, to provide a single point of access to the benefit system for those of working age. Since October 2001, about 50 Jobcentre sites are being created, which bring together the services of the ES and the BA.

- An enhanced and permanent New Deal
- A clearer focus on the hardest to help groups
- Increased use of mandatory compulsion (compulsion). Mandatory participation was extended on LLTU in April 2001 to include post-Gateway periods while initial interviews with personal advisers were mandatory on NDLP from the same date
- Increased emphasis on Gateway and Follow-Through Activities and reduced emphasis on education and training and subsidised employment as elements within programmes.

These developments suggest a process of convergence within New Deal. The programme is increasingly becoming compulsory for all categories of clients and placed an even greater emphasis on flexible, short-term support for job search. In the future, the New Deal should become the same for all clients although individuals would draw upon different aspects of the programme: " Should this come about, it would mean that New Deal would be less a set of targeted programmes and more a mainstream activity of Jobcentre Plus." (Hasluck, 2001:234).

Policy discourses on employability and the necessity of upgrading skills gained increased prominence in the public debate in the late 1990s. The extent to which training should be made a right or a duty in the welfare to work schemes remains a controversial issue.

## **5- Policy debates**

### **The government**

The similarities between the Conservative and the Labour administrations are striking since both place a tremendous responsibility on the individual: both assume that all able bodied people can and must work. In the 1990s the Conservative government put forwards the concept of a learning society which systematically increases the skills and knowledge of all its members to exploit technology (Ainley, 1998). In the governmental discourse, the individual must become employable and job-ready. Under the 1995 Job Seeker's Act, the powers of compulsion given to Employment Service agency staff, who managed the job centres until the summer 2001, make most government training schemes compulsory (Ainley, 1998: 57).

In 1997, the Blair administration claimed that unlike its predecessor, it would effectively improve the quality of the labour force by investing in education. There are strong similarities between the two administrations although the Blair administration has been a much more enthusiastic modernizer than its predecessor has. The main difference between the conservative and Labour administration lies in the greater emphasis on better training opportunities, one of New Labour's favourite slogans. With the New Deals, the Blair administration has intensified the training duties laid on individuals. However, the obligations laid on the government remain quite vague.

A new Department of Work and Pensions has been created in June 2001. The reform is very much based on a Work-First approach. Under the new system, unemployed people will be able to match the requirements and needs of local labour market. It brings together parts of two departments, the Department of Social Security and the Department for Education and Employment (now Department for Education and Skills). The rationale behind the merging of the Employment Services and the Benefit

Agency in the New Department of Working Age Agency placed under the responsibility of the Department of Work and Pensions since June 2001 is that of efficiency. The setting up of 50 Jobcentres plus planned by the end of year 2001 is drawing on the success of the ONE experiment. The then Secretary of State for Work and Pensions, Alistair Darling justified this new step in the following terms:

" Why are we setting up Jobcentre plus? The main reason is so we can provide everyone with the help they need to get into work, or if they lose their job - to get back as quickly as possible. It is a work first approach." (Pioneer, issue 7, January 2002).

### **Party politics**

In the late 1990s the Conservative and New Labour reached a consensus on "knowledge policy". Modernizers on both sides of the political spectrum promote the notion of a learning society as part of the active society approach to welfare reform in tandem with the active labour market policies advocated by the OECD, the World Bank and the EU in the wake of the Luxembourg process. The Labour Party Commission on Social Justice in 1994 laid great emphasis on producing a highly skilled, adaptable and motivated force with transferable skills (Taylor-Gooby, 2001: 25).

In 2001, the Conservative Manifesto stated that the New Deal Programmes have raised people's hopes but have failed to deliver results, especially for the long-term unemployed. The 2001 Conservative manifesto states " We will replace the New Deals with Britain Works... The best way of helping unemployed people is to get them back into work as quickly as possible. This is the basis of our Can Work, must work Guarantee. Those who can work must do so or they will lose their unemployment benefits."(Conservative manifesto, 2001:34).

### **Social partners**

#### **The CBI**

In the late 1980s the CBI and the Conservative government shared similar views. The objectives of the National Education and Training Targets for Foundation and Lifetime Learning were first formulated by the Confederation of British Industry in 1991 at the prompting of the Organisation for Economic Co-operation and Development. They proposed the creation of a learning society through a process of skills revolution (Ainley, 1998: 50). In a document called Thinking Ahead, Learning to Learn became the only constant in a constantly changing world (CBI, 1994).

The CBI strongly supported the 1988 Education Reform Act, particularly the introduction of a defined National Curriculum that stressed key skills and the relevance of education to work. The CBI equally supported the establishment of the employer-led Training and Enterprise Councils to replace the Manpower Service Commission (a tripartite body, including employers, unions and government representatives) in 1988. The CBI gave strong support to the TECS once they were in place ( Taylor-Gooby, 2001:28).

In a brief published in 1998, "Qualified to compete", the CBI campaigns for the creation of a national framework. It argues that "one single qualifications framework should be established with three categories: academic, vocationally related and competence...GNVQ criteria should be developed from a strategic perspective,

providing a solid preparation for continuing education and for employment. The skills of all individuals need to be constantly enhanced to keep up with the increasing pace of change in the workplace..." (CBI, 1998:1-2).

### *The TUC*

The TUC pursues four main objectives. These were: a right to training rather than compulsion, tripartite involvement in the management of training schemes, a training allowance and a levy on employers to finance the scheme, all opposed by the CBI and the Conservative government (Taylor-Gooby, 2001).

John Monks, the TUC national secretary, campaigns for adequate funding of the adult labour force based on the lifelong learning policy discourse. However, the TUC does not play a very eminent role in public-policy making and agenda-setting. Instead, governments on both sides of the political spectrum have been much more empathic towards business interests. This being said, the CBI and the TUC both agree that more should be done on training and lifelong learning.

### **Alternative policy discourses**

The emphasis on employability tends to hold individuals responsible for lacking employment skills and taking available job offers. The Education and Employment Committee in the House of Commons highlights the limits of the learning age society rhetoric. The Fourth Report of the Committee claims that supply-side policies do not address the problem of a lack of demand for labour in certain local labour markets. New Deals perform poorly in areas with highest employment rates. Blaming the individuals will not solve the problem since there is a real shortage of jobs. The committee campaigns for a better co-ordination of supply-side and demand-side labour policies, especially in Northern parts of the country which are most affected by the decline in manufacturing jobs. To expect vulnerable people facing various barriers to employment, including lack of transportation and literacy problems, to keep pace with the changes in the workplace is simply unrealistic:

" Those with low levels of skills and some ethnic minority groups are most affected by the lack of demand for labour... We also highlight the fact that the opportunities available to the unemployed are affected by employer attitude. Transport is cited as an important factor in aggravating the jobs gap. " (HoC, Fourth Report, p.v).

The report campaigns for the development of intermediate labour markets (ILMs). This purpose of this scheme, originated with the WISE group in Glasgow, is to help those people furthest from the labour market get back into employment by providing them with paid work at the rate for the job on a temporary contract. The report deplores the ambivalence of the government towards ILMs. The government has been reluctant to support ILMs since they could encourage "laziness" for job-ready people. The report recommends that the government should pilot a job-guarantee scheme in areas displaying the lowest levels of employment, for those who have been unable to secure employment in the open labour market after leaving the New Deal.

### **Conclusions**

Conservative and New Labour display continuities and differences in their policies for unemployed people. The Conservative administration (1979-1997) pursued negative activation policies of increasing stringency, increasing poverty among unemployed

people and cutting benefit rights. Labour from 1997 onwards retained some aspects of this approach, but also embarked on a positive activation programme, designed to improve the skills of unemployed people and to provide real incentives to find work. This policy formed part of an ambitious long-term strategy, designed to reduce poverty and aid economic development through improvements in human capital and in opportunities in a work-oriented society. While not attaining the goals that were set for it, the programme has had a substantial impact on living conditions for this group. The differences in policy can be summed up by saying that while UK policy throughout the period was dominated by a determination to operate within the confines of market principles, the approach was essentially passive under the Conservatives, while, after 1997, policy-makers sought to 'lead the market' and pursue interventions that would fit individuals for their positions in it.

Despite the rhetoric on activation, 'the level of spending on active labour market policy has not picked up but remains firmly rooted at the bottom end amongst OECD countries, and represents less than what is spent in Denmark or Netherlands' (Clasen, 2001: 26). The central feature is acceptance of the need for a deregulated and flexible labour market, despite such interventions as the introduction of a minimum wage in 1999. Labour market flexibility, the absence of intermediate labour markets for the most vulnerable and the low replacement rates of unemployment benefits are essential features of the Anglo-American model.

#### **IV - Female participation in the labour market**

The need to increase female participation in the labour market is now part of the governmental discourse in the UK since Labour returned to power in 1997. This section first describes trends in female participation rates. Second, it examines the Conservative legacy (1979-1997) and analyses the agenda for reform which emerged in the late 1990s. Third, it analyses Labour policies and identifies unsolved challenges in 2002. Fourth, it presents policy debates concerning childcare provision.

##### **1-Trends in female participation rates and current challenges**

Employment rates among women rose from 47% to 69% between 1959 and 1999. As with men, the proportion of women in employment has followed the economic cycle, but for them such effects have been generally less marked (Social Trends, 2001). Table 8 indicates economic activity rates by gender at the EU level. It clearly shows that female activity rates in the UK are well above the EU average in 1999, i.e. 68.4% versus 59.2%. However, the likelihood of women being economically active still varies considerably according to whether or not they have dependent children.

**Table 8: Economic activity rates by gender, EU comparison, 1991 and 1999**

	1992			1999		
	Males	Females	All	Males	Females	All
Italy	74.0	42.0	57.8	73.7	45.6	59.6
Sweden	...	...	...	78.8	74.0	76.4
Greece	76.2	41.7	58.3	76.9	49.7	62.9
Belgium	71.8	49.3	60.6	73.0	56.0	64.6
Spain	76.0	41.8	58.7	76.2	48.5	62.1
France	75.5	58.9	67.0	75.5	62.2	68.8
UK	86.3	66.8	76.6	84.1	68.4	76.3
Germany	80.9	61.1	71.1	79.3	62.9	71.2
Denmark	...	...	...	85.0	76.1	80.6
Netherlands	79.4	55.3	67.4	82.6	64.4	73.6
EU average	...	...	...	78.1	59.2	68.6

Source: Labour Force Surveys, Eurostat

The UK has the highest proportion of single-parent families in the EU - 25 per cent of children grow up in such families, as against 12 per cent for the EU as a whole (Eurostat 2001). Forty-seven per cent of single parents are in work in the UK, compared with 59 per cent in the EU. The risk of poverty is dramatically greater in the UK at over five times that for the average citizen in the EU as table 9 below demonstrates. Table 10 shows that for both lone mothers and for those with a partner, economic activity rates are lowest when they have a child under five. Lone mothers with a pre-school child are half as likely to be working as mothers with a partner. This differential decreases with the age of the child (Social Trends, 2001). Lone-mothers are thus more likely to be unemployed than their married counterparts. This trend has accentuated the division between rich two-partners household who can afford child care and single-parent-households who are much more likely to be unemployed or economically inactive. In 1996, paid work among lone-parents was 45% whereas 46% were economically inactive (Chambaz, 2001).

**Table 9: Social Exclusion in the UK, Selected Groups 1995**

	UK	EU13
Employed	31	46
Unemployed	421	293
Single-parent	509	305
Couple + 1 child	50	63
Couple + 2 children	82	81
Couple + 3 children	177	169

Note: Statistics represent the relative risk of falling below 60% of median income expressed as an index on which the population score is 100.

EU13 omits Finland and Sweden.

Source: EU (2000b)

**Table 10: Economic status of women (1): by marital status and age of youngest dependent child, spring 2000**

	Age of youngest dependent child				No dependent Children	All
	Under 5	5-10	11-15	16-18		
<b>Not married/cohabiting (2)</b>						
Working full time	11	18	32	51	46	39
Working part-time	21	33	33	26	20	22
Unemployed (3)	8	8	6	...	5	6
Economically inactive	60	41	28	20	28	32
All (=100%) (millions)	0.6	0.6	0.4	0.1	4.5	6.3
<b>Married/cohabiting</b>						
Working full time	21	27	39	40	51	39
Working part-time	39	49	40	38	25	34
Unemployed	3	3	2	...	2	2
Economically inactive	37	21	20	20	22	25
All (=100%) (millions)	2.4	1.7	1.2	0.4	5.3	11.0

1: Aged 16 to 59

2: Includes single, widowed, separated or divorced

3: Based on the ILO definition, i.e., actively looking for work and be registered as a job-seeker

Source: Labour Force Survey, Office for National Statistics

Increased participation of women in the labour market expands marketed activity, but may also constitute a pressure on the liberal welfare state in the sense that all

categories of dependent people (children, the elderly and the disabled) are no longer looked after at home. Women's availability for domestic, unpaid care is declining. In the UK, the reluctant liberal welfare state is somehow obliged to provide for long-term care for the elderly and children under 3 who used to be looked after by the family. The extent to which the market can provide adequate, affordable care for children and the elderly is questionable, thus obliging governments to provide some form of public care for these groups.

## **2- Conservative policies (1979-1997)**

Britain has long been characterised as a country with no explicit family policy (Hantrais and Letablier, 1996: 125). As in the US, the family is a private matter in which state intervention is limited. Of the 634 thousand child-care places officially registered in 2000, 55 per cent were provided through private registered childminders and 41 per cent through private nurseries (ONS, 2002). A large number of additional places of varying quality is provided informally. Payment for private child-care is thus a major issue which bears most heavily on lower-paid workers. Publicly-funded nurseries have traditionally been targeted on cases of social need. As a result, the likelihood of mothers being in full-time paid employment is closely related to the age and therefore the care needs of younger children, and also to the social class and earning capacity of the mother. The main benefit for families has been child benefit, established in 1946 and paid as a universal family allowance. The limitations on benefits and child-care provisions have resulted in acute poverty among single parents, who are highly likely to be dependent on benefits rather than in paid work and also to be below the poverty line (Table 8).

The Conservative government was committed to the traditional family and believed that the "Nanny State" undermined family responsibility. A moral rhetoric coupled with an effective withdrawal of state support is the most accurate way to describe attitudes *vis-à-vis* the family under the Conservative legacy. Besides, the Conservatives had ambiguous attitudes towards female participation in the labour force. Yet they were forced to respond to pressures from the EU and the labour market, which were demanding more female labour market participation. In practice, Conservative family policy between 1979 and 1997 was limited to the development of Family Credit (a means-tested wage supplement paid to low-waged workers, intended to ensure that incomes always exceeded out-of-work benefit rates) and of a child benefit supplement for single parents. The impact of Family Credit was weakened by low take-up, which never exceeded 72 per cent overall and for about a third of those eligible was as low as 60 per cent (DWP, 2001b, Table 10.19). In the mid-1990s, recognition of the need for child-care places led to experiments with a voucher scheme to expand the supply of nursery education places by the time of the 1997 election.

The lack of affordable childcare has long been identified as one of the major barriers to female employment, together with a package of benefits that effectively encouraged women to stay at home (the One Parent Benefit being one obvious example). The lack of public childcare is due to the basic concept of public policy that providing care for children is a parental responsibility. Moreover, the income maintenance system does not require lone mothers to take up paid employment until the youngest child reaches age 16 years of age. Therefore the traditional system provided little incentive for lone mothers to take up paid employment.

In the UK there are two systems of publicly-funded services for children under 5 years: welfare and education. These systems overlap for children aged 3-5 years. In the welfare system, services are the responsibility of the English Department of Health. Publicly-funded services in the welfare system are targeted on children in need under the Children Act 1989. Local authorities must provide a level and range of services appropriate to children in need. Need was defined in terms of actual or potential problems of health, development or disability. Local authorities are not obliged to provide services for such children and as a result nearly all services for children under 5 were left to private, non-subsidised services.

Within the education system, pre-primary schooling is provided for children aged 3 and 4 years. This service was under the responsibility of the then English Department for Education and Employment (now Department of Education and Skills). Most children attend on a shift-basis, for 2 .30 hours either in the morning or in the afternoon. Primary school hours are generally 09.00 to 15.30, which cannot cover the needs for childcare if both parents are working full-time (European Commission, 1998).

The lack of public, affordable childcare was detrimental to female employment. Aware of this problem, the Conservative government made some cautious steps to improve the situation. In 1994, it announced an initiative to provide a pre-school place for all four years old (which left the question of children under 3 unsolved). However, these measures did not suffice to address the issue. The need for a national childcare strategy featured prominently in the policy debate since the early 1990s.

### **3- Agenda for reform and New Labour family policy: 1998-2001**

#### **Agenda for reform**

- In the wake of the EU employment strategy, to address the gender gap in terms of female participation in the labour force became a governmental priority.
- The rationale for reform was both normative (all able bodied people must work) and cognitive: female participation in the labour force was key to national competitiveness
- There was a consensus among social partners concerning the need to implement a national childcare strategy. All the major children's organisations as well as the Equal Opportunities Commission, the Trades Union Congress and the Confederation of British Industry supported this idea. All organisations campaigned for a better co-ordination of childcare services for young children. The focus on children in need (Children Act, 1989) was also increasingly criticised by employers since private child care could not meet the childcare costs of most working parents, thus effectively creating employment disincentive for the second wage earner, i.e., the mother (EC, 1998).
- The fact that the welfare system trapped lone mothers on a life on benefits without encouraging them to take up paid employment became widely acknowledged (Lister, 1999). The Commission on Social Justice supported the case for requiring lone and (other) mothers of older children to be available for at least part-time paid work as a condition for receiving benefit (Lister, 1999:244).

## New Labour Policies

The radical change in relation to the family brought about by the New Labour administration is now well documented (Lewis, 2001, Gray, 2001, Rake, 2001, Driver and Martell, 2002). Suffice to say that New Labour family policies represent a radical departure from the past and are without any doubt much more comprehensive and coherent than any pre-existing package. The new government was also more open to European recommendations than its predecessors. The Green Paper *Meeting the Child Care Challenge: Fairness at Work* states that 'helping employees to combine work and family life satisfactorily is good not only for parents and children but also for business'. The Employment Action plan of 2001 states that "the UK female unemployment rate is lower than for males, and the Government aims to ensure that it remains low and the female employment rate remains high."<sup>9</sup>

As in the case of its activation programme, New Labour policies linked concerns about employment with concerns about poverty and were based on the premise that the paid work was the main route out of poverty. The Prime Minister made the striking promise to abolish child poverty 'within a generation' (Labour Party 2001, p.20, 24) and, more concretely to reduce the numbers of children living below 60 per cent of median family income by 2010 (DWP, 2000, ch. 2). The emphasis on employment led Labour to establish a National Child-care Strategy delivered through a range of programmes, including nurseries, after-school care and 'Sure Start', which provided flexible funding for a variety of schemes for children in disadvantaged areas. These schemes contributed to the shift in care provision from child-minders to day-nurseries by 2000 (ONS, 2002), and to an overall expansion in the number of places. The number of places with registered child-minders fell from 402 to 369 thousand between 1997 and 1999, whereas private day nursery places increased from 206 to 262 thousand (ONS, 2001, Table 8.23). These trends continue. In addition, the expansion of benefits for low-income working families mentioned in relation to labour-market policy earlier included new tax credits to pay for help with child-care costs.

These changes take place in a context where the specific supplement to child benefit for single parents (the One Parent Benefit) had been abolished because it was unconditional and not linked to employment activities. The 2002 Budget has introduced a programme to bring together all child support other than the universal child benefit, into a single Tax Credit. This is designed to target state help more accurately on low-income groups and increase work incentives by removing concerns about loss of benefits when unemployed people transfer into employment. The tax credit system is designed to ensure a seamless transition in entitlement. The New Deal for Lone Parents (NDLP) intended to encourage this group to seek paid work. Although participation in the programme is not mandatory yet, single parents must attend a work-oriented interview since April 2001. These policies have had some effect in reducing poverty levels for this group, but over half (55 per cent) of children in one-parent families still lived below the poverty line targeted by government policy (60 per cent of post-housing-cost median income) by 2000/01 (DWP, 2002).

Recent policies for child-care and the balance between family life and paid work represent a shift in state engagement. Child-care is no longer seen as simply a private

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<sup>9</sup> Employment Action Plan, 2001, p.29.

matter, in which the state should intervene only for specific need groups, but as a matter of policy which demands a national strategy. However, the mechanism of intervention follows that of other New Labour policies. Direct state benefits and interventions are targeted specifically on low-income groups, such as children in the deprived neighbourhoods involved in Sure Start or the single parents out of work targeted by NDLP. The policies for the mass of parents are designed to 'lead the market' by providing subsidies and benefits for private provision and incentives to work, and the majority of the population is still expected to pursue private solutions.

### **Remaining issues**

The problems of the current approach have been the limited impact on poverty and the high cost of child-care. The average Childcare Tax Credit payment of £37.30 a week is less than a third of the cost of a full-time nursery place in the highest cost areas of London. Low-income parents who receive the benefit are unable to afford such provision and pay on average just over 30 per cent of child-care costs. This compares with an average of 20 per cent across Europe (Daycare Trust, 2002). In its general commentary on the UK employment strategy, the European Commission noticed that the UK 'has the lowest labour force participation rates for single parents in the EU' (EU 2000a). The Council of Ministers set a target of 70 per cent of single parents to be in work by 2010, a very substantial increase (NAP, 2002).

#### **4- Policy debates: childcare provision**

The availability and affordability of childcare is a central issue in the public policy debate on the role of mothers of pre-school children given the gaps in childcare provision for the under three.

### **The government**

Although the Labour administration prefers to rely on private mechanisms through the expansion of childcare tax credits rather than the development of public childcare facilities, it can no longer ignore the negative impact of the lack of public childcare on female participation in the labour force. Only just over 10% of single mothers with a child under 1 year are in work, and this figure rises to just 48% for those with older children (Duncan, A., Gillian, P., Taylor, 2002). In the light of these hard facts, there is a change in the governmental discourse since the publication of the Green Paper "Meeting the Childcare Challenge (Department of Education and Employment, 1998). The July 2002 Comprehensive Spending Review announced reforms which will more than double the childcare budget by 2006. Responsibility and funding for childcare will be brought together under one integrated budget together with early years learning and sure starts under a single minister straddling two departments - education and skill, and work and pensions. The new budget will include existing funding for childcare and early years and will be worth £1.5bn a year by 2005-2006, representing a doubling of this year's childcare spending. According to the Guardian, " Mr Brown is believed to have been prompted to act to address significant gaps in the government's much vaunted national childcare strategy, exposed in an unpublished new report by Downing Street's performance and innovation unit. "<sup>10</sup>

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<sup>10</sup> Ward, L. " Big increases pushes childcare up the agenda", *The Guardian*, 16 July 2002.

### *The Conservative party*

There is no mention of public childcare in the Conservative Manifesto 2001, *Time for Common Sense*. The Conservatives stick to the idea that childcare is a private matter. The Manifesto reluctantly acknowledges that "mothers or fathers who stop working to care for their children can sometimes find it hard to get back into paid work afterwards." (Conservative Party Manifesto, 2001: 7). The Conservatives still believe in the virtues of childcare tax credits and leave childcare arrangements to the family.

### *Social partners*

Both the TUC and the CBI have reached a consensus regarding the need to improve childcare facilities. They welcomed the National Childcare Strategy.

#### The CBI

Since the early 1990s, the CBI supported the launch of a National Childcare Strategy. Moreover, the CBI has launched new initiatives such as Employers for Work-Life Balance. The rationale is that when high-skilled women are working in lower skills jobs as a way of balancing work and caring responsibilities, employers and the economy as a whole are losing out (CBI, 2000). Employers' interests drive the rationale behind these new initiatives. Employers are now determined to make better use of the skills that women have. Female participation in the labour market is very much encouraged given women's rising qualifications and experience. Work-life agenda does not emerge in a vacuum: it now features prominently in the employers' discourse because female skills are needed in the post-industrial economy, especially in the service industry.

#### The TUC

Like the CBI, the TUC highlights the need for an improvement in the terms and conditions of childcare workers and a better provision of childcare facilities for shift workers and for those who work untypical hours.

#### The academic community

The research community has welcome the National Childcare Strategy although feminist researchers highlight that much remains to be done in order to really address the gaps in childcare provision (Rake, 2001). The Institute for Fiscal Studies strongly supports the case for state intervention in childcare on cognitive and normative grounds. Like the CBI, it argues that the state will lose out if women are not participating in the labour force since it "will have invested in the human capital of women through training and education and these sunk costs will fail to bring benefits if women do not return to the labour force after childbirth." (Duncan, Paull and Taylor, 2002: 2). There is thus a theoretical case for government intervention to subsidise the costs of childcare. This is the cognitive argument: to subsidise childcare makes economic sense is good value for money and will improve national competitiveness.

There is now a broad social consensus concerning the need to expand public childcare since it offers greater security to parents. The government has made cautious steps

towards a pattern of commodification of childcare in the face of these normative and cognitive arguments.

## **V-Policies for the low-paid and social assistance**

The problem of poverty is one of the governmental priorities, especially in relation to children. However, the debate has focussed much more on the poverty of a minority of mothers in low income families, especially single parents, and the importance of work for this group, both to tackle their obvious needs and to reduce social security costs. This section first describes recent poverty trends. It then analyses the Conservative policies in relation to low-income families. Thirdly, it describes the Labour policies as well as the policy debates. Fourth, it presents the current proposals for reform, i.e. the Integrated Child Credit (ICC) and the policy debates concerning the ICC.

### **1- Trends and challenges**

In the UK the main trade-off of Deindustrialisation and cost-containment policies has been a significant increase in low-income households. The number of people with incomes on or below the state's safety net has increased by three-quarters since 1979. By 1997, 14 million people were officially qualified as poor<sup>11</sup>. Over the period 1994/5-2001, the percentage of the population below various low income thresholds, comprising fractions of mean and median income, showed no large or consistent changes, although there was evidence to suggest the figures rose slightly at the beginning of the period and then fell again. Groups at risk are: individuals in workless families, families with children, single female pensioners, individuals living in households headed by a member of an ethnic minority community, individuals containing one or more disabled people, individuals leaving in the North East, and, on after housing costs only, London, were also at particular risk of low incomes (see Households Below Average Incomes Survey, Report for the period 1994/5 - 2000/1, table 3.3).

### **2- Conservative policies**

In 1971, the Conservative government introduced Family Benefit, a cash benefit for parents working 30 hours or more a week, payable on the basis of a household means test. In 1988, the Thatcher government introduced a more generous version, the Family Credit. The Family Credit aimed to provide extra-support for families and to ensure that they were better off in work. Family Credit was originally restricted to people working at least 24 hours a week. In the late 1990s the debate focused on the issues of the working poor.

### **3- New Labour and poverty**

The new political rhetoric claimed that the welfare state had created the conditions of welfare dependency, thus trapping low-income households, especially lone mothers, into poverty. The real way out of poverty is through paid work. Accordingly, the current government emphasises the need to provide "equal opportunities for all"

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<sup>11</sup> See Rhodes 2000, "Social democracy and the third way in British welfare", *West European Politics*, p. 178-179.

through job creation, adequate training and the development of work incentives for low-paid workers. Policies for low-paid workers consist in the introduction of a minimum wages and tax credits.

The introduction of a national minimum wage in April 1999 is a major innovation of New Labour. Before the introduction of the National Minimum Wage (NMW), some workers were earning as little as £2 an hour or even less. The current rates (since October 2001) are £4.10 for workers aged 22 and over and £3.50 for workers aged 18-21, to increase to £4.50 and £3.80 in October 2002. However, the minimum wage remains very low and recent strikes in the public sector have asked for a substantial increase in the minimum wage. The wage differential between young and adult workers might also partially explain the reduction of youth long-term unemployment. The Labour government supported the expansion of targeted, means-tested support assessed against joint family income. More generous provision reflects the belief that spending should be targeted at those who most need help, thus moving away from a universalist model of family support services. In this respect there is some continuity between the Conservative and Labour policy discourses since both endorsed the view that scarce resources should be spent on low-income families. The move towards means-testing has been intensified by the current administration: "The pre-budget report set you the challenges faces in tackling child poverty and supporting families, rewarding work and saving, and concentrating extra help on the people and communities that need it most" (HM Treasury, 2002).

As shown below, one key change to welfare policy has been the introduction of the Working Family and Disabled Person's Tax Credits, replacing Family Allowance and Disability Allowance respectively.

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Date	Policy Change
<b>April-95</b>	Incapacity benefit (IB) was introduced – with short-term IB replacing Sickness Benefit and long-term IB replacing Invalidity Benefit
<b>April-96</b>	Basic rate of income tax reduced from 25 to 24 per cent.
<b>April-97</b>	The basic rate of income tax reduced to 23 per cent and One Parent Benefit was abolished. The latter was subsequently incorporated into Child Benefit as a separate premium for the eldest child of lone parents, until July 1998, after which it is only available to lone parents with protected rights. The rate of One Parent Benefit (and its equivalent Child Befit premium) was frozen from 1995-1998.
<b>April-98</b>	Introduction of Winter Fuel Payments for pensioners, the New Deal for young unemployed people and (in June 1998) the new Deal for long-term unemployed people aged 25+.
<b>April-99</b>	Introduction of Minimum Income Guarantee (MIG) for pensioners, the National Minimum Wage and also 10 per cent lower rate of income tax, replacing previous rate of 20 per cent.
<b>October-99</b>	Introduction of Working Families/Disabled Person's Tax Credits (WFTC/DPTC), replacing Family Credit and Disability working Allowances respectively.

- April-00** Abolition of married couples income tax allowance in April 2000 and Mortgage Interest Relief at Source (MIRAS) both of which were gradually reduced from 1994/5. Basic rate of income tax was reduced to 22 per cent.
- November-00** Introduction of free TV licences for pensioners aged seventy-five and over
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The Blairite administration has replaced the FC with a much more generous for low-income working families, the WFTC, the Child Tax Care Credit and the Children Tax Credit. The government has done "good by stealth". However, this might change in the near future. The 2001 Budget has made even more generous provisions for the CTC, the Children's Tax Credit and the Child Benefit. The new measures announced in the 2001 Budget are the following:

- introducing the Children's Tax Credit at £10 a week - £1.50 more than previously planned - also reflected in higher income support and Job-Seekers's Allowances tax credits;
- raising the Children's Tax Credit by a further £10 to £20 a week in the year of a child birth from April 2001;
- Announcing a rise in maternity pay from £60.20 to £100, an extension of the period of paid maternity leave from 18 to 16 weeks, and the introduction of two weeks' paid maternity leave.
- Announcing record increases in universal Child Benefit. Child Benefit will rise in line with indexation from April 2001: to \$15.50 for the first child and to £10.35 for subsequent children (HM Treasury, 2002)
- Increases in the Minimum Income Guarantee for pensioners.

The effect of these last measures is not reflected yet in the 2000/2001 HBAI survey. One important issue is whether they have actually taken up - the survey published in 2002 showed that take up of the initial tax credits was disappointing and their impact on low wage poverty less than anticipated. They will first appear in the HBAI 2001/2002 data. It is thus too soon to assess the impact of these policies on low-income households.

### **3- The governmental proposals: towards an integrated child credit**

The Treasury paper "Tackling Poverty and making Work Pay- Tax Credits for the 21<sup>st</sup> century" is drawing on the experience of other countries such as Canada and Australia. In the chapter "Fairness for Families and Communities", the Treasury states that "the Government intends, from 2003, to introduce a single tax credit for families with children. This will bring together the different strands of support for children in the WFTC, Disabled Persons Tax Credit, Income Support/Jobseekers allowances and Children Tax Credit, building on the foundation of universal child benefit. This new tax credit will be paid directly to the main carer in the family." (HM Treasury, 2001). The child tax credit will not depend on whether or not the main carer or his partner is working, nor will recipients face any new obligations to look for work. By contrast to the WFTC, the working tax credit will support those with or without children in low-paid work. Child benefit will be left intact. The government aims to simplify support from families with children since it believes that the current system is too complicated. In short, from 2003-2004, there will be just two ways of getting financial

support: universal child benefit and means-tested child tax credit. 80% of families will be entitled to the new benefit (IFS, 2002).

#### Policy debates concerning tax credits

##### Social partners

The CBI and the TUC supported the introduction of the WFTC in October 1999 since they agreed it would help reduce poverty and raise the incentive to work. However, both the TUC and the CBI opposed administration through the pay packet albeit for different reasons.

##### The TUC

The TUC supported the proposals for ICC. The TUC urged the government to focus welfare reform on transitions into employment. Making work pay was too narrow since it did not facilitate the transition into paid employment, assuming that paid work should be a prerequisite for help with childcare costs. More importantly, the TUC opposed the delivery mechanisms of the WFTC. Therefore it warmly supported the radical children's benefits reforms:

"This makes the ICC doubly welcome. The fact that it will be paid to the main carer in families in and out of work means that the ICC will go a long way towards reversing the negative impact on the gender distribution of resources, and the TUC broadly welcomed the proposal when it was first announced." (TUC, 2001b)

##### The CBI

The CBI supported the principle of WFTC since it can tackle poverty and raise incentives to work. However, the CBI opposed administration of WFTC through the pay packet since "this places a substantive administrative burden on businesses, particularly on small ones who do not have the administrative infrastructure to absorb the new systems required." (CBI, 2001b). Therefore, it recommended that overall responsibility for the administration of the Credit should lie with the Inland Revenue (CBI, 1998:1).

##### The research community

The Joseph Rowntree Foundation and most feminist researchers have welcomed the adoption of the WFTC. However, the WFTC has been criticised on the grounds that it widens the gender gap since it is delivered through the pay packet: it favours the wallet (men) rather than the purse (women) whereas women are still the main carers:

"The choice of a tax credit as the vehicle of delivering support low-paid families has consequences for gender equality within families...It is already clear that for sole earner couples payment of the WFTC through the wage packet is likely to exacerbate economic inequality between men and women...Credit may result in a direct transfer from purse to wallet." (Rake, 2001: 218).

The WFTC is far from being gender neutral and has been criticised by the academic community and the TUC for this reason. Aware of these criticisms, the government drafted proposals for an integrated child credit scheduled for 2003.

The JRF supported the move towards an integrated child credit through a policy learning process. In particular, a JRF study that looked at experiences in Australia, Canada and the USA has influenced government's thinking. The government, when preparing its proposals for ICC, drew lessons from foreign experiences based on international comparisons conducted by the JRF:

"Australia and Canada have both successfully introduced systems that give a common family benefit or tax credit regardless of work status. Such conditions have helped financed spending on children in ways that are relatively free of stigma and connotations with welfare." (JRF, 2000). The vast majority of the research community has welcomed the governmental proposals concerning the introduction of the ICC:

" CPAG sees the ICC as a potential means of channelling further resources towards low-income families with children, but has also warned of the possible hazards - not least the danger that the new means-tested benefit might come to be treated as an alternative to child benefit, rather than building on it as the Chancellor has promised." (CPAG, 2001). Unlike its Conservative predecessor, the current administration is committed to eradicate child poverty. It has accepted the idea that a more inclusive and unified system might be the best route to effectively tackling child poverty.

## **Conclusions**

The introduction of the ICC in 2003-2004 is a radical departure from traditional New Labour childcare tax credits. Although the choice of policy instruments remains similar, i.e., the use of the fiscal administration rather than the Benefit Agency, the fact that more families will be eligible for the new credit is a swift change. Moreover, the fact that the new credit will be administered to all families regardless of their working status is also a positive move insofar as it signals the government's willingness to promote a more inclusive, simplified and coherent family policy that would effectively ease the transition into paid employment. This does not mean, however, that the government is abandoning making work pay strategies. Rather, they are seen as complementary policies which should effectively eradicate child poverty and improve the nation's future. Therefore the Government's proposals are based on a normative assumption according to which children should be helped through the provision of more universal family support.

## **VI- The way in which welfare is financed**

This section is divided into four parts. First, it examines the main trends in social expenditure in terms of scale, expenditure by function. Second, it describes the Conservative policies. Third, it analyses the Labour policies and assesses whether there has been a continuity with past trends. The extent to which the 2002 Comprehensive Spending Review represents a radical departure from past trends is also briefly assessed. Fourth, it presents the main policy debates concerning the way in which welfare is financed.

### **1- Trends and challenges**

As in other European countries, social expenditure has risen since the early 1970s. Indeed, demands rose as a result of growing unemployment and population ageing, among many other factors. In the mean time, resources started to decline sharply as a result of the economic crisis, what Taylor-Gooby, Vic George and Bonoli have called

“squaring the welfare circle” (Taylor-Gooby, George and Bonoli: 2000). As Glennerster (1997) put it, “can we afford it”? International comparisons suggest that the relative scale of Britain’s welfare state is smaller than in most industrialised countries in 1993 (Hills, 1997: 10). Despite the rises in expenditure on some of the main components of social protection benefits, spending in the UK was roughly the same as average for the EU. In 1997, expenditure per head was \$6.1 thousand in Luxembourg while in the UK the figure was of £3.7 thousand, twice as much as Portugal. Expenditure on social protection benefits as proportion of gross domestic product in 1998 ranged from 18% in the Irish republic to 34% in Sweden. The figure for the UK was 27% (Social Trends, 2001: 145).

Between 1977 and 1999-00, social security benefit expenditure had roughly doubled in real terms, to just over £100 billion (table 11). The Department of Social Security (DSS) spends the largest individual share of total expenditure of any government department. Over 30 million people in the UK receive income from at least one social security benefit, well over half the total population (Institute for Fiscal Studies, 2000)

**Table 11: Expenditure on benefits, 1979-2000**

	Cash terms (£m)	Real terms (£m)	Real Increase (%)	% of GDP
<b>1978-79</b>	15,845	50,985	6.90	9.16
<b>1979-80</b>	18,744	51,646	1.30	9.03
<b>1980-81</b>	22,612	52,703	2.05	9.56
<b>1981-82</b>	27,638	58,836	11.64	10.66
<b>1982-83</b>	31,558	62,832	6.79	11.12
<b>1983-84</b>	35,236	67,081	6.76	11.46
<b>1984-85</b>	38,098	68,947	2.78	11.52
<b>1985-86</b>	41,579	71,449	3.63	11.47
<b>1986-87</b>	44,776	74,625	4.45	11.49
<b>1987-88</b>	46,551	73,661	-1.29	10.81
<b>1988-89</b>	47,183	69,930	-5.06	9.82
<b>1989-90</b>	50,038	69,177	-1.08	9.55
<b>1990-91</b>	56,348	72,252	4.45	9.98
<b>1991-92</b>	66,169	79,936	10.63	11.19
<b>1992-93</b>	75,022	87,767	9.80	12.22
<b>1993-94</b>	82,102	93,568	6.61	12.65
<b>1994-95</b>	84,500	94,965	1.49	12.29
<b>1995-96</b>	88,320	96,484	1.60	12.20
<b>1996-97</b>	91,817	97,179	0.72	11.96
<b>1997-98</b>	92,995	95,711	-1.51	11.38
<b>1998-99</b>	95,581	95,581	-0.14	11.11
<b>1999-00</b>	101,078	98,573	3.13	11.18

**Source:** Department of Social Security, own calculations

Social Security spending tends to follow economic cycles. The late 1980s saw the first substantial fall in social security spending as a share of GDP since 1948-1949. This was due to rapid economic growth and the associated fall in claiming unemployment benefits. Besides, many benefits, the most important being the basic state pension, were only increased in line with inflation. Things began to change again as a result of the economic crisis of the early 1990s. Unemployment rose to 2.9 million, which led to a dramatic rise in the share of national income spent on social security. Spending reached a historic peak of almost 13% in 1993-1994 as table 11 shows. According to the DSS 2001 (Cm 5115), since then spending has fallen as a share of GDP. It accounted for less than 11.5%, including expenditure on the Working Families' Tax Credit and Disabled Persons' Tax Credit. The fall in expenditure relative to GDP after 1993-1994 occurred in the EU as a whole. Spending on social protection in the EU, as well as the real value of benefits, went up on average by just under 5% a year. In the subsequent three years, it rose by under 2% a year. This slowdown was common to all member states (EC, 2000).

Taxation is more important in the UK than social contributions as a percentage of GDP. In 2000, current taxes on income and wealth as a percentage of the GDP was 16.9% versus 14.3% in the EU, 12.3% in France, 10.5% in Spain, 22.5% in Sweden and 21% in Finland. By contrast, social contributions as a percentage of GDP are 7.7% in 2000 vis-à-vis 14.4% in the EU, 18.3% in France, 13.4% in Spain, 16.4% in Sweden and 12.2% in Finland (Eurostat 2002). However, both main parties pursue cuts in visible taxes. The basic rate of income tax fell from 30 to 25 per cent in the late 1980s, and then to 22 per cent by 2000. Other direct tax cuts were the reduction of higher rate tax (paid by the top 10 per cent) from 60 to 40 per cent in the 1980s and the introduction of a lower rate of 20 per cent on very low incomes in 1992. The main business tax, Corporation Tax, also fell from 40 per cent in 1985 to 35 per cent and thence to 30 per cent currently, while the small companies rate has fallen from 29 to 20 per cent (Inland Revenue Statistics). Expenditure taxes are now the most important generator of revenue (29 per cent), while National Insurance contributions (16 per cent) are a substantial direct personal tax. The share of revenue collected from social contributions declined in the UK by some 4 percentage points - from 44% to just under 40% - between 1990 and 1996 (EC, 2000). Local taxation (four per cent) has fallen in real terms, despite the political visibility of Poll Tax at the beginning of the 1990s, and capital and corporation taxes raise a relatively small but growing proportion of revenue (Taylor-Gooby, 2001: 156-149).

## **2-Conservative policies**

The Conservatives came into power in 1979 with a radical agenda: to roll back the frontiers of the welfare state. However, by the mid-1990s it became clear that this was not a feasible task: instead, social spending reached a peak in 1993-1994, as a result of the recession and unemployment. A quarter of national income is spent on the welfare state. Despite a series of measures to keep its growth in check, rising demands meant that the Conservatives have not succeeded in cutting back the overall scale of the welfare state. The role of the private sector within welfare did increase over the Conservative years, reflecting deliberate policies. However, this increase was more important for service provision. The overall picture is one of gradual, rather than

rapid, privatisation of welfare activity. Means-testing became much more important under the conservatives. By the mid-1990s the scale and support of means-tested support through social security in Britain was greater than at any time in the history of social security provision. The increase of means-testing has occurred in a number of member states but it was much more pronounced in the UK. The Conservatives tried to limit the growth while at the same time concentrating resources on those most in need. In 1996, expenditure subject to means-testing amounted to 20% of the total in the UK (EC, 2002). It had increased between 1990 and 1996, by 3% of the total. In 1996 about half of the unemployment benefits were means-tested and their proportion has increased since 1990. Outlays on disability benefits also increased at a high rate during the first part of the period, with a rise of 16.5% a year, almost as large as the rise in unemployment benefits, almost certainly reflecting their role as an effective substitute for the latter. Despite the implementation of spending cuts in housing, outlays on housing benefits represented 7% of the total in the UK, where they were larger than spending on unemployment benefits- reflecting the reliance on them as a complementary means of providing support in addition to cash transfers and a way of directing expenditure to those most in need since they are means-tested. Spending on housing was concentrated in 1990-1993, especially as unemployment increased. However, spending on social exclusion was kept as a minimum (0.3% of spending on social expenditure).

Governments collected more in revenue for social protection than they spent. In 1996, revenue exceeded social protection by over 3% of GDP. By contrast, throughout the same period, revenue was less than spending in Spain, Italy and France (EC, 2000:86). The Conservatives headlined Britain's British 'Low Tax Economy' in their 1997 manifesto and promised a reduction of the basic rate from 25 to 20 per cent (Conservative Party, 1997, p.7), while Labour promised 'no increase in the basic or top rates of income tax', offered the long-term objective of a 10 per cent starting rate and promised to hold to Conservative spending plans for the first two years in office (Labour Party, 1997:4). Success in holding down taxes was highlighted in the 2001 manifesto.

### 3- New Labour policies

The government kept to these plans. Spending was tightly constrained up to March 1999 and income tax cut, but the 1998 Comprehensive Spending Review (Treasury, 1998) incorporated substantial increases in spending on the two most popular universal welfare services, health and education. Spending rose to over £5 billion per year more than previously planned by 2001/2 (Hills and Lelkes, 1999), a real rise of over five per cent, later increased to 6.1 per cent from 2000 to 2004 for the NHS. This was financed through tax buoyancy resulting from growth and spending cuts for unemployed and disabled people (DSS 2000b, Table B2). Spending on old age had still the lion's share in social expenditure as shown by table 12 below.

**Table 12: expenditure on social security benefits and related tax-credits, 1999-2000**

	Expenditure (£m)	Percentage of total
Benefits for families	11, 886	11.8

Benefits for unemployed people	3, 451	3.4
Benefits for people on low incomes	26, 437	26.2
Benefits for elderly people	38, 320	38.0
Benefits for sick and disabled people	19, 489	19.3
Benefits for widows	1, 027	1.0
Others	166	0.2
Total	100, 777	100.0

Source: DSS, *The Changing Welfare State: Social Security Spending*, DSS: London.

The increases in NHS spending that were announced under the July 1998 Comprehensive Spending Review (CSR) and the July 2000 Spending Review were large when compared with the increases that the NHS has received in the past. The IFS estimates that spending should grow by an annual average of 6.4% a year in real terms between April 1999 and March 2004. Spending on education has increased as well. As with spending with the NHS, the years covered by the July 1998 CSR and the July Spending Review represent periods of relatively large increases in education spending. Under current plans, over the next tow years, spending on education will increase by some 5.5% a year in real terms. However, as with health, the period of high spending growth since April 1999 follows on four years of very small increases. It is thus likely that spending will not enable to deliver world class public services but just compensate the effects of years of low investment under the Conservatives. Education and health consume just over a quarter (28%) of government spending. Social security spending is forecast to grow at an average of 1.8% a year over the next tow years which is a similar growth rate to that seen under the first years of the current Labour government. Dilnot, Emmerson and Simpson point out that "this is an extremely low rate of growth by historical standards- over the half century, social security spending has grown in real terms by an average of 4.2% (Dilnot A., Emmerson C., Simpson H, 2002:40).

The low overall growth during Labour first five years is the product of two different phases: the first two years, when social security spending actually fell, by an average of 0.9% a year, and the next three years (1999-2000, 2000-01 and 2001-02) in which spending is forecast to rise by an annual average of 3.8%. The low growth in the first period reflected falls in unemployment and very little growth in the generosity of social security benefits. The subsequent three years, during which spending grew, saw selective but large increase in benefit generosity, most notably directed towards low-income pensioners and families with children.

The Comprehensive Spending Review in July 2002 does not make a radical departure from these premises. The government, in line with the Labour party, has stated that it wants to deliver world class public services.<sup>12</sup> Priority areas are health and education, but spending will rise considerably in the last term before the next parliamentary

<sup>12</sup> Section 2, "World class public services: how investment and reform will improve public services", in Labour Party, *Ambitions for Britain*, Labour's Manifesto 2001, London 2001.

elections. Seven per cent annual increases in NHS spending for 10 years were highlighted in the April 2002 budget, while a 6% a year increase in education spending was the centrepiece of the chancellor's speech in July 2002<sup>13</sup>. The other winners are police and prisons, transport, and, to a lesser extent, housing and international aid. Spending on housing will be up by 105% a year since 1997. UK health spending as a proportion of GDP is set to rise from 7.7% in 2001-02 to 9.4% a year in 2007/08. The government is banking on real improvements in public services by the time of the next general election. A new departure is the announcement of a real increase in NI contributions in the 2002 budget to raise an extra £8 billion.

#### **4- Policy debates**

Policy debates about the finance of welfare have been dominated by the determination of both main parties to cut spending and reduce personal taxation. The Conservative stance was summed up in the opening sentence of the 1979 Public Expenditure White Paper: 'Public spending is at the heart of Britain's present economic difficulties' (Treasury, 1979, para.1). The determination to contain spending was reinforced by the humiliating expulsion from the ERM. The Portillo reviews were set up to identify areas 'where better targeting can be achieved or from which the state can withdraw altogether' (Hansard, 8.2.93, col. 683).

Labour, in opposition, at first argued for more investment in public services on traditional neo-Keynesian/Beveridgean grounds. The 1992 election was fought on an interventionist and redistributive programme. The defeat led to a fundamental rethinking of policy, culminating in the 1997 manifesto programme which stressed competitiveness, the market and entrepreneurship (Labour Party, 1997). This stands in sharp contrast to the party's national recovery programme of the 1992 election campaign, at a time of recession, which refers to 'intense competition' but offers a government-led investment programme as the solution (Labour Party, 1992, pp.11-13). The policy shift is summed up in a joint statement with German Chancellor Gerhard Schröder on the Third Way in June 1999: 'public expenditure as a proportion of national income has more or less reached the limits of acceptability' (Blair and Schröder, 1999).

Treasury involvement in the policy areas of other ministries has become more proactive under governments of both parties. The Portillo reviews constitute a Treasury intervention into the territory of the spending departments, in contrast with the former reactive annual Public Expenditure Review system (Deakin and Parry, 1997). They presage the 1997 Labour Government's Comprehensive Spending Review, contributing to the extension of direct Treasury control of a widening range of aspects of social policy. Both parties have shifted policies and practice in a way that strengthens the centralising tendencies of the UK polity and weakens the possibility of introducing a substantial redistributive tax-and-spend welfare system, to counter the secular trend to inequality. Trade union interests are side-lined and the CBI finds that the general drift of policy-making follows business interests.

A number of pressure groups linked to the traditional left have criticised the 1997 government's spending constraints. Although the Prime Minister has made a commitment to end child poverty 'within a generation' (Blair, 1999) and has

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<sup>13</sup> Whilte, M. and Elliot, L., "Brown's big gamble", the Guardian, July 16 2002.

promoted a highly visible Social Exclusion programme, policy statements stress the 'Third Way' assumption that welfare goals are to be gained not primarily by spending but by activating individuals and communities. Benefits must be carefully targeted and justified by their contribution to economic competitiveness (DSS, 1998). The party treads a careful path between the limited and discreet redistribution discussed above and the presentation of a public face resolutely opposed to tax cuts. The CPAG and various pressure groups have criticised the government for being too cautious and doing good by stealth: "Despite the emphasis on paid employment as the route out of poverty, benefits for families not in employment have been increased and for some quite significantly... Though welcome, the increases have not been exactly been shouted from the rooftops of Downing Street- perhaps because the editor of the Daily Mail may be listening?", (Martin Barnes, 2000, Benefits: 3).

A major paradigm shift has taken place since the early 1980s: reduced spending has become a major political achievement in its own right<sup>14</sup>. Both Conservative and Labour governments agree on the need to stabilise social spending. The issue at stake is not the goal itself - it is fairly consensual - but which party has been most successful in implementing cost-containment strategies. The point is that financial stringency has become the cornerstone of government thinking on both sides of the political spectrum. New Labour departs from the Conservative approach in that it is now prepared to countenance spending increases provided they are justified by improved outputs in popular services.

## **VII- The impact of the EU on social policies: the British exception?**

Historically the UK has been a reluctant European. As Ivor Roberts and Beverly Springer point out, "the UK (or more properly the British system, since the system in Northern Ireland is distinctive) industrial relation system is closer to that of the United-States than to European systems. History and geography have forged a distinctive society in the UK, one that is not easily reconciled with its partners across the Channel."<sup>15</sup> The British opposition to a more pro-active, binding social European social policy is well-documented. The extent to which there is a pattern of continuity between Conservative policies and New Labour policies in this respect remains open to question.

Liebfried and Pierson (1995) have argued that European social policy is relatively unimportant as it plays second fiddle to the mainly market-making orientation of European integration. The EU has thus increased competitive pressures on national social systems. Teague challenges this view and argues that "EU social policy has had important but uneven influences on the labour market regimes of the European labour markets (Teague, 1999). In fact, British social policy since 1979 conforms with, rather than counteracts, the pressures coming from the international system (Rhodes, 1996). Since the early 1980s there has been a shift way from the system's Beveridgean origins towards a low-cost, minimal system of welfare, with targeted means-tested

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<sup>14</sup> Robert Walker and Marilyn Howard explain that "Social Security spending is considered to be too high and to, an extent, counterproductive. Such views first became influential under Conservative governments, notably those led by Margaret Thatcher, but now inform Labour's approach to welfare reform." Howard M., Walker R., 2000, *The making of a welfare class?*, Bristol: Policy Press, p. 7.

<sup>15</sup> Roberts I. and Springer B., (2001), *Social Policy in the European Union*, Lynne Rynner Publishers, London, p. 63.

benefits and a low-wage, flexible labour market. EU social policy had been a counteracting influence. This explains why the defendants of a liberal market-oriented agenda resisted it. EU directives are more progressive than national legislation and tend to be resisted on this ground. Therefore the UK stands out as a unique case in Europe. This section first examines Conservative policies in relation to the EU. Second, it assesses the extent to which there has been a more positive standpoint towards the EU, in particular in relation to employment rights, under New Labour. Third, it assesses the extent to which the UK is likely to retain its peculiarity, especially in the field of labour market policies, or whether it will be more compliant with EU social policy.

### **1-The Conservatives and EU social policy: 1979-1997**

From 1978 to 1997, the Conservatives espoused a radical form of free market economy. Both Margaret Thatcher and John Major opposed EU social policy. Under their leadership, the UK did not accept the Community Charter of the Fundamental Rights of Workers, and it obtained an exclusion from the social chapter attached to the Maastricht Treaty, which freed British employers from EU social policies adopted under its provisions. The British government claimed that the Social Charter "did not satisfy criteria, which were unanimously agreed by the Heads of Government at the Madrid summit in June 1989: priority to job creation, adequate regard to subsidiarity and respect for the diversity of practice among member states"<sup>16</sup>. In 1991, the UK refused to sign the 1991 Agreement on Social Policy arising from the Treaty of European Union (Hantrais and Letablier, 1996:132).

Moreover, the British governments opposed any interference in the field of labour market regulations. The best example is the Working Time Directive. The Directive was adopted by the Council of Social and Labour Affairs Ministers of the EC on November 23, 1993. The Directive issued that the working week should be limited to 48 hours. It also obliged member states to take measures necessary to each work is entitled:

- To a minimum daily rest period of 11 consecutive hours per 24 hours period;
- To a rest break where the working days exceed six hours;
- To four weeks' paid annual leave.

The terms of the directive conflicted with the laissez-faire approach to labour regulations and with the deregulatory approach of the administration: "apart from its procedural objections, the British government claimed that, together with the first atypical work directive (which would extend prorated rights to occupational pensions, sick pay, and training), the new substantive rights provided by the second directive would cost employers in the UK around £1 billion and imperils ten thousand of jobs" (Rhodes, 1995: 101). The most controversial issue was the legal basis upon which the Directive was proposed and adopted. The Council adopted the Directive as a health and safety measure under what was then the article 118 a of the EC Treaty, which enabled measures to be adopted by "qualified majority voting", rather than as a social policy measure. The Directive was adopted by all member states except the UK. The government challenged the Directive of the grounds that it was not a health and safety

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<sup>16</sup> Rhodes, M. " A regulatory Conundrum: Industrial Relations and the Social Dimension", in Leibfried S and Pierson P., *European Social Policy, The Brooking Institutions*, p. 96.

measure but rather a social policy measure which would require unanimous voting. The challenge failed before the European Court of Justice<sup>17</sup>.

Likewise, the British government opposed the 1992 European Directive on parental leave. The European Council adopted a Pregnancy Directive which included a stipulation concerning an entitlement to fourteen weeks' maternity leave with some financial support. Despite UK opposition, this measure was adopted because it was put forward as a health and safety measures and did not require unanimous agreement. In 1996, the Union finally issued a Directive, under the Social Agreement of the Treaty of the Union, excluding the UK, giving parents the right to a three-month period of leave to care for their children. The British opposition to a parental leave directive was based on a concern about the potential costs to the business sector. In 1992, the UK had been the only member state within the EU without an universal right to maternity leave for women in paid employment (Hantrais and Letablier, 1996, Pringle, 1998).

In general, the UK has been slow to implement EU social directives. Throughout the 1980-1990s, the UK had troubles with the European Court of Justice for adopting legislation that does not conform with the intent of EU directives. In 1984, the Court ruled that the 1975 sex discrimination right did not comply with EU law, and in 1998, it ruled that firing a woman from absences of work because of pregnancy, as allowed under a UK contract, violated the EU sex discrimination directive (Roberts and Springer, 2001).

The inability of the Conservative party to define a coherent and sustainable European policy were highly detrimental to the Conservatives. John Major had entered office determined to "put Britain at the heart of Europe", yet he found himself more and more isolated from his European partners over the five years of his premiership. As Wallace points out, "European integration had repeatedly been among the trickiest and most contentious issues for successive British governments. By 1996/1997 European policy had become an open battle ground." (Wallace, 1999:103).

## **2- New Labour**

The net result of the Conservative failure in relation to the EU was that New Labour adopted a European stance, which balanced positive rhetoric with vague commitments. The British opt-out of the Maastricht Social Protocol was to be removed. This allowed the implementation of the Working Time Directive which was perceived to be unpopular with British business interests. On April 8, 1998, it eventually produced a set of draft aimed at implementing both the Working Time Directive and the Young Persons' Directive in the UK.

Moreover, the 1999 Employment Relations Act implemented the European Union Parental Leave Directive. It introduced the right to 13 weeks of parental leave per year for both parents of children under five. Parents can stay home from work to look after sick children. However, since the leave is unpaid it may not help low paid and insecure workers. In general, the new government was much more sympathetic towards European social policies and employment rights than the Conservative government. However, the Labour government made it clear that it would not support

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<sup>17</sup> For a detailed account of the history of the Working Time Directive, see Mac Mullen J., Brewer M. and Curtis P. (2001), *Working Time, Law and Practice*, Sweet and Maxwell.

a large extension of European Social policy. In fact, New Labour is determined to keep the structure of labour market intact. External flexibility - the hire and fire labour market coupled with the predominance of contractual relationships between employers and employees are essential characteristics of the British labour market and possibly a crucial element to employment creation, although the latter remains open to question. Within Europe, the UK is the country with most employment flexibility. For instance tenure figures are low in the UK, 7.9 years. The UK is similar in this respect to the USA, where average tenure is only 6.7 years. Moreover, despite the Employment Regulations, the UK stands out as being the European country where there is most freedom to work long hours (Addison and Siebert, 2001: 231.)

In short, the 1990s have implemented restrictive labour regulations. Although New Labour has reintroduced the Wage Council suppressed by John Major, New Labour remains deeply ambivalent about the issue of employment rights. In fact, Tony Blair has been together with the Spanish PM one of the most fervent advocates of labour market flexibility. There is thus much more continuity between Conservative and New Labour policies in the field of European social policy despite the rhetoric on fairness at work.

### **3- Policy debates**

Two categories of interest groups became clearly Europhiles throughout the 1980s-1990s. First, the trade-unions, close to the Labour party and which are for the most part member of the Trade Union Congress (TUC), espoused a pro-European stance since it would enable to counteract the Conservative deregulatory approach. Adversarial describes the approach taken by trade unions and employers in their negotiations. However, the climate changed throughout the 1980s-1990s. Trade unions were the main targets of the politics of "handbagging", a metaphor which adeptly captured the attitude of Margaret Thatcher towards British institutions, e.g., local authorities and trade unions. Employers, encouraged by the new political climate, launched derecognition campaigns to weaken unions in formerly unionised workplaces. British trade unions had been cool towards the EU but turned to Brussels in the late 1980s. EU social policy offered them a buffer against anti-unionism at home. The opponents of national laws regulating industrial regulations became advocates of EU directives. Britain has now a model of industrial relations based on the direct relationship between employer and employee which offers little protection to employees. In this context, the General Secretary of the TUC, Norman Willis, acknowledged that the Working Time Directive represented progress for British workers. In genera, EU directives were supported by the TUC since they would always represent a progress for British workers (see Roberts and Springer, 2001, and Mac Mullen and Curtis, 2001).

The second Europhile group was the feminist movement. The Directorate General for Employment and Social Policy has been sympathetic to gender issues. According to Sonia Mazey, "women's groups have been particularly adept at mobilising support for the ideas - and associated policies - of sex equality" (Mazey, 1998). Some feminist authors have criticised the EU emphasis on the rights of women as paid workers and have argued that the EU did not acknowledge the role of women as unpaid carers. Thus the application of gender equality directives could also imply a lowering down of women's rights, especially in the field of pensions (Lewis, 1995). This being said, the EU equal treatment philosophy could only improve women's' rights in the UK. The

fact that the UK was very slow in implementing the 1975 Directive on Equal Pay but was obliged to do so by the European Court of Justice suggests that European institutions have been powerful advocates of women's rights in the UK, as in other member states. It is therefore not surprising that women's groups have sought to extend the powers of the EC and the European Parliament, together with trade unions and citizens' rights activists.

Employer associations, most notably the CBI, have been ambivalent towards European social policies. On the one hand, they have been very keen on implementing the health and safety directives (Rhodes, 1995). They also welcomed the national Child Care Strategy. In this respect the EC has had some limited influence since the EC has not produced yet a Directive on child care. Moreover, levels of provision remain very uneven across member states although under the Employment Title inserted in the 1997 Treaty of Amsterdam, member states are required to produce national actions plans, including childcare strategies. Indeed, it is in business best interest to increase female participation in the labour force. This explains why the CBI is becoming more sympathetic towards EU initiatives on childcare provision.

The EU remains a bone of contention for both political parties. The UK still stands out as an awkward partner in the EU although relationships between the British government and its partners have tremendously improved since New Labour came into office. However, the British government is now torn over the issue of the Euro. Indeed, the UK continues to use the pound as a reserve currency, thus reinforcing its uniqueness in comparison to other member states. The Government's policy on membership of the single currency remains as set out by the Chancellor of the Exchequer in October 1997, and restated by the Prime Minister in February 1999. In principle, the Government is in favour of UK membership of EMU; in practice, the economic conditions must be right. The determining factor underpinning any Government decision on membership of the single currency is the national economic interest and whether the economic case for joining is clear. As the Chancellor said in his October 1997 statement, the Five Economic Tests will define whether a clear and unambiguous case can be made. The Five Tests are:

- sustainable convergence between Britain and the economies of a single currency;
- whether there is sufficient flexibility to cope with economic change;
- the effect on investment;
- the impact on our financial services industry; and
- whether it is good for employment.

On the basis of the assessment, the Government will take a decision on whether the Five Tests have been met. If the Government recommends UK entry, it will be put to a vote in Parliament and then to a referendum. However, the PM has made it public that he may launch a referendum in Spring 2003 even though all five tests are not being met. The question is more political than purely economical. Once again, the reluctance to join the Eurozone might have to do with the fact that the British government wants to retain some room for manoeuvre and keep the basic structures of the British economic regimes intact.

### **Conclusions: Explaining the liberal shift**

The ability to implement swift, liberal reform remains a striking characteristic of the British welfare state in comparison with its European partners where reform has been for the most part, slow and incremental, especially in Continental Europe. We will identify the institutional factors for explaining the capacity to implement rapid change.

### **A highly centralised system**

The British political system is a highly centralised state, with only limited powers left to local governments. Britain radically concentrates political authority. The electoral system seriously limits the potential for weak coalition government. Therefore, the party in power enjoys considerable influence, with virtually no opponents. By contrast, more fragmented systems can enable the multiplication of veto players (the American case being the prototype of such a fragmented system). These characteristics help explain why Britain has often been described as the prototype of majoritarian democracy. However, this strength can also turn into a weakness since at times of elections, British governments may be even more constrained by the politics of blame avoidance (Pierson, 1994). Given the absence of veto players in the system, the government is accountable to the electorate and cannot blame other players for any policy failure. This explains why the Thatcher government has been reluctant to implement unpopular reforms, especially in health care. Far-reaching reforms were more easily implemented in the absence of veto player, as was the case in relation to unemployment policies and cash benefits for the poor.

### **Recent policy changes have accentuated the concentration of powers**

#### **The increased role of the Treasury**

The history of public spending since the late 1960s is that of continuous and rising influence of the Treasury (Hecló, 1974). At present the Treasury directly imposes spending rules. When the New Labour government took office, it has tied itself to the previous spending plans for its first years, not just in total but in terms of each department's budget. Through the Comprehensive Spending Review (1998), each government conducted a fundamental review of its spending priorities. The Treasury has taken an unusually important role in social policy, especially in relation to the New Deal for unemployed people and tax credit policies (Taylor-Gooby, 2001).

#### **The increased influence of the Cabinet Office**

In 1988, the Prime Minister has established an Efficiency Unit and expanded the Cabinet Office so that active intervention in the detailed operations and planning of government departments can be routinely pursued. An increase in the number of cabinet committees "offers a route for driving through reforms without exposing them to Cabinet or wider scrutiny" (Taylor-Gooby, 2001: 197).

#### **The marginalisation of trade unions and local authorities**

Margaret Thatcher successfully marginalised two major veto players in the British welfare state, namely trade unions (the umbrella organisation being the Trade-Union Congress, the TUC) and local authorities.

Until very recently, trade-unions are no longer influential in British politics. The failure of the miner's strike in 1984-1985, the adoption of anti-union legislation between 1980 and 1993 weakened the mobilising capacities of trade-unions during this period, at a time when trade-unions had become widely unpopular following the winter of discontent (1978-1979). Thatcherite rhetoric made the trade unions one of the primary causes of "British decline". This could be easily done since traditional industries were held responsible for the vicious circle of high wages and inflation, especially after the winter of discontent (1978) that led to the victory of Margaret Thatcher in the parliamentary elections of 1979. (Rhodes, 1996; Lee, 1997). New Labour has not reversed this trend and has severed the party's political links with the union movement.

Another major target of Thatcherism has been local authorities, especially in the area of public finances. Local government tended to repeatedly exceed the spending limits set by the Treasury, which led to a rapid deterioration of the relationship between local authorities and the Conservative government. The abolition of Greater Metropolitan Authorities in 1986 illustrated the importance of the ongoing battle between the centre and local government. The Thatcherite government constantly tried to erode the power and the autonomy of local authorities, by contrast to decentralisation trends that have been observed elsewhere in Europe. However, local authorities have been able to regain more influence since New Labour took office.

With the exception of some professional networks, in particular the medical profession, welfare constituencies enjoy very little influence in social policy. The fact that the medical profession has been able to counteract some major reforms remains an exception to the rule rather than a general trend. Social workers' influence has been declining - although arguably it was never very high. Other think tanks, such as the much respected Child Poverty Action Group, have been equally marginalised by the Conservative. The CPAG does no longer influence governmental policy after the failure of Frank Field MP (also member of the CPAG) as a special Minister for Welfare Reform in 1998. Field wanted to radically reduce the role of means-testing benefits; his plans for cutting benefits for lone mothers had been fiercely opposed by Labour MP backbenchers. He thus resigned rather than accept a move to an alternative post outside the Cabinet.

However, signs of social unrest in the public services have increased this year. Recent strikes (on low pay and privatisation) have played on popular fears concerning a summer of discontent. Trade unions seem to regain some confidence and stand up for employee's rights. Two factors have been crucial to recent changes in the political climate. First, public sector employees have had no pay rise and the minimum wage remains very low. The rise in tax credits does not compensate for the low-wage economy, especially deflation is seen as a major economic risk. Second, the pension crisis favours a more universalist and egalitarian approach to welfare since it is a sure sign that New Labour privatisation policies are not working.

### **The capacity to implement swift liberal reform**

### **The British welfare state: liberal at heart?**

Welfare spending has always been comparatively less important than elsewhere in Europe. Britain is a latecomer in the area of pensions. SERPS appeared in 1979 only, which opened a window of opportunity for the advocates of radical reform, i.e. the New Right (cf. Myles and Pierson, 2001: 314).

### **Party politics and the construction of an implicit liberal consensus**

In many areas, there is a strong continuity between Conservative social policies and New Labour. The harnessing of social policy explicitly to the improvement of economic competitiveness is a key theme. After the collapse of the so-called post-war consensus in the 1970s, the doctrines of both parties seemed to converge again in the 1990s, arguably leading to the construction of an implicit liberal consensus in the following areas:

- The need to keep social spending under tight control, an area in which New Labour has been more successful than its Conservative predecessors, due in particular to the economic growth when Tony Blair first took office in 1997
- The willingness to combat welfare fraud and to put an end to welfare dependency through the promotion of in work incentives
- The willingness not to increase taxation
- The move to greater targeting and privatisation of welfare services provision, in particular in pension reforms
- The acceptance that a low tax system is a prerequisite for economic competitiveness in the new open economy

These are the basic elements of an implicit liberal consensus. However, New Labour has introduced new themes and policy goals. When answering the question “what is distinctively New about New Labour”, Hills (1998) identified four themes:

- The importance to the labour leadership of shedding its ‘tax and spend’ image, leading to tight budget constraints, but with significant reallocation towards health and education spending
- A strong focus on the promotion of paid work
- A series of measures intended to reduce inequality and relative poverty, but without any general increase in real benefit levels
- The new dominance of the Treasury in making welfare and social policy.

New themes emerged as well:

- In particular, the New Labour has introduced new concepts such as social exclusion, thus creating a Social Exclusion Unit within the Cabinet
- Tony Blair has also promised to eradicate child poverty and is committed to address the problem of worklessness among low-paid households, a concern that was certainly not on top of the Conservative agenda
- New Labour sees full employment as a key social policy goal since paid work is the best way out of poverty
- The second New Labour administration has raised the benefits for low-income families although it does not exactly advertise these measures
- The emphasis on people’s employability is seen as a key policy instrument to promote equality of opportunity
- The strong influence of American thinking over the British debate in terms of the rehabilitation of the work ethic

- A capacity to borrow best practices in an empirical fashion, from French concept of social exclusion to American workfare schemes, is a key characteristic of the third way
- The implementation of family friendly policies represent a radical break with the Conservative attitude towards the family
- Willingness to increase spending on highly popular services such as the NHS and education
- Strict monitoring of policy to ensure that services deliver efficiently

Although progress has been made in the reduction of income equality and poverty due to the distributional effects of recent anti-poverty strategies, there is room for improvement. It has been feared that rising poverty could jeopardise social cohesion in the long run. Moreover, the extent to which the British welfare state is able to respond to new category of needs is currently put under test with the affluence of non-EU immigrants. Last but not least, the attitude towards the EU is not completely clear yet. To a certain extent, the UK still ‘pursues an inconsistent course in relation to Europe.’ (Taylor-Gooby, 2001). Nevertheless, despite its willingness to preserve the flexibility of the British labour market, the current administration has been a driving force behind the shift from passive to active labour market policies in the EU employment guidelines. The adoption of a more coherent course of action towards the EU as well as the implementation of efficient anti-poverty strategies are non explicit challenges which remain to be tackled by the current government.

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