

# Policy Paper

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## The Case for Universalism: *Assessing the Evidence*

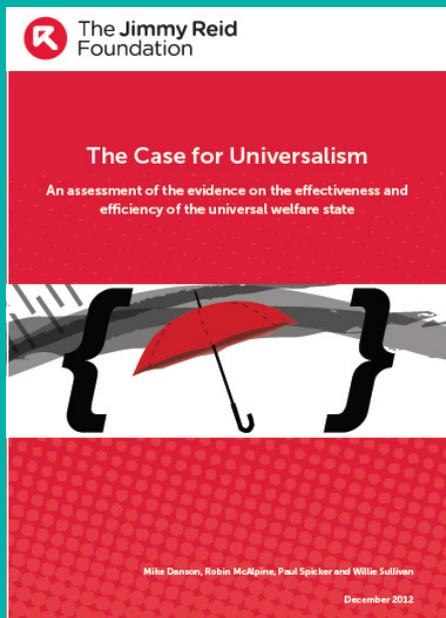
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# Acknowledgements



This Paper is an updated UK version of the recent Jimmy Reid Foundation report—*The Case for Universalism: An Assessment of the evidence on the effectiveness and efficiency of the universal welfare state*.

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## The Jimmy Reid Foundation

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# Executive summary

Universalism is once again edging up the political agenda. This underlying principle behind the welfare state has always been reviled by those who wish to see it dismantled, but more immediately concerning is a growing acceptance that in order to protect vital public services the ideal of universal coverage should be abandoned in favour of selectivity. But this is a false dichotomy - universalism is not an ideal.

To paraphrase Zoe Williams (2013), setting people in different income brackets against one another and dividing people by imagined characteristics is a powerful political tool. Creeping selectivity is justified by the argument that those with the broadest shoulders should forgo some entitlements so that the system can continue to provide for those most in need. Policies capping housing and child benefit have started down a pernicious road which can lead in one direction only - detachment and then residualisation. The reality is that wholesale reform of the welfare state is taking shape behind this increasingly acceptable encroachment into universalism.

What has been largely absent from the debate is any serious analysis of the two proposals on the table – a defence of the universal welfare state versus increasing selectivity. So what do we find when we go beyond the rhetoric? This report examines four crucial aspects of universalism:

- Social impact
- Economic impact
- Implications for taxation, redistribution and equality
- Implications for political philosophy

Where possible the report has sought to rely on verifiable data and established analytical frameworks, rejecting unsubstantiated political rhetoric. The findings are straightforward:

- Moving from universalism to selectivity increases social and economic inequality and diminishes rather than enhances the status of the poor.
- Selectivity requires processes and procedures that separate benefit recipients from the rest of society, increasing stigmatisation and reducing take-up.

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- Universalism is incredibly efficient – the selective element of pension entitlement is more than 50 times more inefficient than the universal element measured in terms of fraud and error alone and without even taking into account the cost of administration.
  - In economic terms universalism is clearly shown to deliver Merit Goods (things we all benefit from) and Public Goods (things that could not be delivered without collective provision) which selectivity simply cannot deliver.
  - The economic impact of universalism is much greater than the economic impact of selectivity because of the multiplier profile of expenditure.
  - Universalism also creates positive economic stability by mitigating the swings in the business cycle and creating much more economic independence among the population.
  - On virtually every possible measure of social and economic success, all league tables are topped by societies with strong universal welfare states.
  - Universalism creates a higher and more progressive tax base which also improves economic stability, reduces price bubbles and creates more efficient flatter income distributions.
  - Universal benefits promote gender equality and do not suffer from the inherent bias built into a system designed within a framework of assuming a male breadwinner model of welfare.
  - There is a ‘paradox of redistribution’ which creates the rather counter-intuitive result that systems where benefits are not targeted towards low-income groups are the ones that most benefit low-income groups.
  - It is impossible to disentangle redistributive tax and universalism – if universalism is reduced, redistributive taxation is reduced and vice versa.
  - Where social services are ‘rationed’ for those on lowest incomes, the quality of the services decline without ‘majority buy-in’ for those services.
  - Selectivity is not a form of universalism but the rejection of universalism. Selectivity is a cost-driven judgement, universalism a function-driven judgement.
  - Selectivity and universalism are elements of two entirely different political philosophies – universalism is inextricably linked to the European Social Model, selectivity is inextricably linked to US neoliberalism.

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- Wherever we find a move from universalism to selectivity we find privatisation and corporate profiteering, often at the expense of those least able to bear the impact.
  - If all of the available data is pulled together and the conclusions drawn, the historical and contemporary evidence strongly suggests that the appropriate response to austerity is to increase universal provision and so stimulate economic activity, equalise damaging wealth disparity and improve both government and wider economic efficiency.

That the evidence is so compelling and yet that the current debate on universalism has made little or no reference to that evidence is a sign of the lack of serious analysis that has been given to the claims made against the universal welfare state. A divisive, economically inefficient system which increases inequality, reduces the quality of social services, stigmatises and damages the wellbeing of the poor but benefits large corporations is being advocated without any coherent evidence-based case being made.

If there is to be a process of breaking down universal social provision it is essential that it is an informed process. Of course, if the process is informed then it is hard to see how the outcome could be the breaking down of universal social provision.

Universalism is progressive, redistributive taxation and seamless provision of social welfare for all in a linked social system. It is a social system based on the dual principles of 'from each according to ability to each according to need' and 'from the cradle to the grave'. It has produced the most effective society civilisation has yet achieved. We undermine that system at our peril.

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# The Social Impact of Universalism

One of the central questions in social policy, Richard Titmuss (1987) argued, is how to include the poor. It is not the only issue to be considered, because social policies in general do far more than safeguarding people from poverty: in social security, which is where the debates about inclusion have been most strongly focused, there are further issues to consider – social protection, redistribution, fairness, economic management and many others. It is critically important, however, in deciding what services should do and how they should do it.

There are three main strategies. One is selectivity: services are targeted at and delivered to poor people directly. That calls for some method of identifying who is poor and who is not, and the process is often difficult. There are problems in identifying the boundaries, treating people fairly, and dealing with changes in circumstances. Beyond that, selective services can be socially divisive, because they rest on a distinction between the poor and the non-poor. Selectivity, Peter Townsend (1976) argued,

***“fosters hierarchical relationships of superiority and inferiority in society, diminishes rather than enhances the status of the poor, and has the effect of widening rather than reducing social inequalities. ... it lumps the unemployed, sick, widowed, aged and others into one undifferentiated and inevitably stigmatised category.”***

The second approach to social inclusion is solidarity. Most people in society are part of a complex series of social relationships, based on families, communities, work, education and government provision; social cohesion depends on overlapping, intertwined networks of mutual responsibility and support. People are said to be ‘excluded’ when they are not part of such systems - when they are left out, shut out or pushed out (Spicker, 2007). Social policy in continental Europe has been based on a progressive extension of solidarity, beginning with people developing mutual support, but subsequently seeking to include people who would otherwise be left out (Baldwin, 1990). The central problem with this model is that solidarity and mutual support can be exclusive as well as inclusive (Paugam, 2004); there might still be the same kind of social divisions that characterise selective provision.

The third strategy is universalism: providing services to everyone as of right. Universalism can be directed at broad categories of people, such as older people or

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children, but it does not distinguish between different categories of people on the basis of income or wealth. The best examples in the UK are probably health care and education, but the examples that most people focus on are more controversial, such as Child Benefit or the Winter Fuel Payment for pensioners. The practice of paying benefits regardless of income is obviously inclusive, and one of the key points in favour of universalism has been that it protects the poor along with everyone else, without stigmatising people. They avoid, as far as it is possible to avoid, procedures that separate benefit recipients from the rest of us.

Universalism is controversial, however. Its critics ask, 'what sense does it make to provide benefits for rich people?' The main arguments that we should not provide for the rich come from the political right: that universality is potentially expensive (probably true), that the system is not understood by the public (true again), and that benefits and services should be confined to a safety net (which is disputable). To those arguments, however, we need to add further objections from the left.

Howard Glennerster from the LSE has suggested that in attacking universal provision, the Coalition is directing its fire at its own core vote: "This is a battle to stop the middle classes assuming that the state is there to provide for their university education and comfort in old age" (Blastland, 2010). The arguments for universalism begin with principles. Universal benefits and services are there because people have a right to welfare. They do not lose that right if their situation changes, and particularly they do not lose that right if they earn more. The right is sometimes described as a right of citizenship (Lister, 1990), but that term suggests that it only goes to citizens, or formal members of the club; there is a case for offering services like health and education more widely, taking in migrants and visitors. Part of this is an argument for equality. Societies which offer equal rights are better for everyone; societies that are less equal are worse for everyone (Wilkinson and Pickett, 2009). But part of the argument, too, is an argument from self-interest; if everyone has rights, we all have a stake in the services, and that is part of making things better for ourselves as well as for others.

Other aspects of the argument focus on the politics of welfare. Benefits and welfare services are unavoidably redistributive: the people who pay are not necessarily the same people as those who benefit. Education is not just paid for by parents; the cost of roads is not just met by drivers; the cost of health care is not just met by sick people. Some of our public services - for example, commuter rail transport, higher

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education and support for sport and the arts - actually benefit richer people more than they benefit poorer ones (Le Grand, 1982, Bramley and Smart, 1993, Bramley, 1998). That is not a good argument against having public services, which make life better for everyone; and the contribution of richer people and the middle classes is essential to the services. If richer people are excluded from participating, they are also more likely to resent having to pay for services they cannot benefit from. In situations where services for the better off are separated out - which has happened in some cases, for example to schools - there has to be at least a two-tier service. Wherever that happens, services in the lower tier will be worse.

***“Services for the poor will always be poor services” (Horton and Gregory, 2009).***

Many of the arguments, however, are simply about practicality. “What I find so frightening”, Titmuss complained, “is the extraordinary administrative naivety of those who argue in such terms for ‘selectivity’” (1987). Including some people, and denying service to others, can only be done if there is some sort of mechanism for doing it. The political right often argue that targeting through tests is more efficient than general distribution. That might be true if the tests actually worked, but unfortunately they don’t. The administrative problems are often assumed to be part of the process of ‘means-testing’ (Oorschot, 1995), but this is not just about testing financial resources; tests for need (like those used for disability and incapacity benefits) have plenty of problems of their own. Testing is intrusive, burdensome and expensive; the more personalised a system is, the worse it gets. There are problems of ignorance - people do not know if they are entitled - complexity, and stigma. The take-up of selective benefits is often poor; the administration of testing inevitably includes some people who should not be included, and excludes others who should be. Means-tests have special problems of their own. Income has to be defined and identified; it is unpredictable; it fluctuates wildly from one date to another (research on Tax Credits has routinely found people’s income doubling or halving in a three month period - Hills, Smithies and McKnight, 2006). Most people already face at least one means-test, in the form of taxation. More means tests - for example, for Child Benefit - would be just another complicated, intrusive procedure.

Universal benefits are minimally intrusive; they get by with as little information as possible. They avoid, as far as it is possible to avoid, procedures that separate the recipients from the rest of us. Just as important, Professor Bob Goodin from the University of Essex argues, they are minimally presumptuous; they do not assume

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that an all-seeing administration is capable of finely discriminating between the merits of different claims (2002). There are some clear, simple benefits to applying clear, simple procedures. The most obvious ones are about avoiding hassle; there are times, such as emergency admission to hospital or bereavement, when we really don't want to be sucked under by complex administrative procedures. There are administrative advantages – these benefits are easier to operate, less vulnerable to fraud and cheaper to run. The estimates for the means tested Pension Credit suggest that overpayment through fraud stands at 1.5 per cent, customer error at 1.5 per cent and official error at 2.1 per cent, making 5.1 per cent altogether. By contrast, the equivalent figures for Retirement Pension - a benefit delivered to much the same client group, and which simply continues as long as the person is still alive - are 0.0 per cent, 0.1 per cent and 0.0 per cent (DWP, 2012).

Then there is security and predictability. We don't have many benefits that stay the same when people become disabled, lose their jobs or return to work, but Child Benefit is a useful example. Successive governments have been obsessed with 'incentives' and 'disincentives' to work, based on what people's final income will be. That's not necessarily the key issue for people moving into work; they may well want to know how they'll cope and what will happen in the next few weeks or months. Child Benefit doesn't change, when most other things do. Tax Credits, by contrast, shift like the desert sands, potentially leading to demands to repay huge sums of money; and the new Universal Credit will go up and down like a roller-coaster, almost the opposite of what people need.

The advantages of universal benefits have led some commentators to argue that everything should be universal. This is the case for a Basic Income in place of existing benefits (Parijs, 1992). A Basic Income could not settle all problems, because there will still be needs (such as disability) that we want to test and respond to, and circumstances where people need particular forms of help or support; benefits are complicated because the circumstances they are responding to are complicated. There is scope, however, for more universality, such as a Citizens Pension, in place of the current combination of insurance, means-tested and universal benefits, an extended Child Benefit in place of some Tax Credits, or a basic Housing Allowance in place of the current, complex Housing Benefit. In times of austerity, there is a powerful argument for ensuring that people have, at least, a common foundation. In those terms, the lack of funds is an argument for more universal provision, not less.

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# The Economics of Universalism

Many of the arguments made to justify cuts or withdrawals of universal benefits are made on the grounds of 'economics'. As elsewhere in the analyses of the sort of future we want, the understanding of the definitions, frameworks and processes of economics revealed by claims and counter-claims are often less than transparent. This section aims to provide an economic basis for this paper by applying the most relevant concepts to support an assessment of the main costs and benefits of universal benefits, contrasting with the continuing moves to means-tested benefits.

To put this analysis into a wider context, the UK has much to learn from an appreciation of alternative welfare systems and so a comparison is made of our approach and outcomes with those elsewhere in northern Europe. By looking beyond the Anglo Saxon world, there is a deliberate attempt therefore to avoid the normal narrow learning from the US implicit in most social policy analyses.

The other parts of this report confirm the need to consider not only the obvious and immediate results of changing strategies, policies and programmes but also the deeper and longer-term impacts. So here the costs (including the administrative burdens of means testing) and the benefits for both the individual and society of universal welfare payments are raised, over both the short and the long term.

Opportunity costs and the costs of greater inequality are also recognised in more sophisticated assessments of the detailed workings of the welfare system and these are addressed before the findings of this section are summarised.

## Economic concepts

Different welfare benefits have different characteristics and these have importance for how they are viewed, for their economic impacts, etc. Many elements of basic education and health are seen in economics as Merit Goods – their provision has benefits not only for the individual citizen but also for society as a whole. Better standards of literacy and numeracy throughout the population raise living and learning capacities for employers, employees and the community alike, while a healthy workforce is more productive and promotes higher national quality of life for all. There is now an accepted rationale for the collective provision of primary and

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secondary education in society, although the extension of post-11 schooling was strongly resisted in the nineteenth century as being unable to show a return and a waste of resources (the poor and working classes not having the innate capacity to profit from further structured learning according to many employers). The battle to make the wider society benefits of universalism have been long-fought, from the Poor Laws onwards regardless of how strong are their economic underpinnings.

As well as meeting the needs of those suffering from poverty and low incomes due to ill health, disability, worklessness or other particular difficulties, there is a class of benefits and elements of the welfare state that can be justified on the economic grounds of being Merit Goods. Another set of goods and services is described as Public Goods – the supply of which cannot be guaranteed by the market itself because it is not possible to exclude potential customers from consuming the product without having to pay (street lighting, national defence are two examples). So, the state intervenes in the defence of the country funded through general taxation as individuals would not be willing or able jointly to make arrangements for the armed forces, for instance. Under these standard economics definitions, universal benefits can be said to include quite a broad range of government and state activity.

Much attention on universal benefits, however, is on welfare payments and direct provision to the individual or household. Such payments should be considered for their capacity to affect not just their specific household incomes and living standards but also the economy as a whole. In this context, the economic notion of the ‘multiplier’, which in turn depends on different groups’ propensities to spend their incomes at the margin and to spend on imported goods and services, is significant. The greater the extent that a particular pound of income is re-circulated around the economy by the purchase of UK products, the higher the positive impact on national income and economic activity. For instance, the poor and mothers of young children have a higher propensity to spend every ounce of income on essentials, and the impacts in the market place will be greater than an equivalent cut in income tax for the richest in society.

As well as being an argument for carefully targeted public procurement policies and practices (Using Our Buying Power to Benefit Scotland, JRF, 2012), this is a clear justification for redistributing income and resources from the rich to the poor. And as argued cogently from economic bases by anti-poverty campaigners (Townsend,

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1979; Walker et al., 2011), Labour strategists (Field et al., 1977; Commission for Social Justice, 1994) following the Beveridge analyses, means-testing does not work; to achieve the expansionary effects of the welfare state universalism is required.

There are other forms of externalities not captured in market prices or costs, so the positive impacts of universal benefits need to be recognised if under-provision is to be avoided. Once it is appreciated that a healthier and more active older population will make fewer demands on health and social services, that supporting the sick and disabled will improve their ability to participate in society and generate greater well-being for them and their families, it can be seen that there are wider economic gains for all members of the community.

A key characteristic of universal benefits is their role in automatically stabilising household, regional and national incomes over the business cycle. So, as part of a progressive welfare and taxation system, there is a lower reduction in spending power by those becoming unemployed or suffering falling take-home pay during a recession. Similarly, in a properly functioning welfare state, in times of expansion, gaps between rich and poor are managed through universal benefits ensuring that all gain from greater prosperity.

Analogously within the household, such universal benefits as child benefit, caring and disability benefits paid to all qualifying, regardless of their or their partner's income, mean that there is protection against cyclical and structural fluctuations in wage incomes. Universalism therefore empowers mothers, carers, the long term sick and disabled, giving them greater confidence and self-esteem – both essentials for well-being and, where appropriate, engagement with the labour market – and diminishes their dependency on others – what is claimed to be a key objective of conservative critiques of the welfare state.

## International comparisons and contrasts

Across a number of areas of economic and social policy, many have been encouraged to follow the Nordic model(s) and establish a truly 'universal welfare state'. Such an approach to organising society and the economy has been described as: "a broad range of social services and benefits that are intended to cover the entire population throughout the different stages of life, and ... the benefits are delivered on the basis of uniform rules for eligibility. A typical example would be

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universal childcare or universal child allowances that are distributed without any form of means-testing ...” (Rothstein, 2008, p3). Such an inclusive welfare state inevitably has consequences for the whole of the community: the welfare system is not just for ‘the poor’ but for all, building social cohesion, solidarity and inclusion; taxation is high to fund this inclusion as all are covered; there are savings as a large bureaucracy is not required to administer a means-tested system; and the negative effects of means-testing are avoided (Rothstein, 2008, p4).

It is widely recognised and accepted that the Nordic countries individually and collectively occupy the highest ranks on indexes of income, wealth, happiness, life satisfaction and equality, with the lowest levels of poverty and inequality in the world (Danson, 2012). There is also agreement that, regardless of which was the initial driver, “these societies ... managed to set in motion a process in which universal social policy institutions and social capital became mutually reinforcing entities” (Rothstein, 2008, p16). All this is in stark contrast with the UK: the fourth most unequal society in the OECD, with its high levels of poverty (Eurostat, 2012), persistent and long term low growth and failing future (Elliott and Atkinson, 2012).

## **Means-testing versus universal benefits**

Attacks on universal benefits are not new – protecting and defending the poor and disabled from having to rely on means-tested welfare payments has been at the forefront of public campaigns against poverty for many decades. In terms of economics, there are several reasons for recognising the advantages of universal benefits and for arguing their superiority over means-tested schemes. For the individual, avoiding the means test can be important for their self-esteem and confidence, both crucial in ensuring mental health and in raising employability and regaining employment.

Building on the work of Townsend especially, Walker (2011, p150) identifies the critical elements in universal benefits that means-tested schemes cannot offer. They reach everyone who is eligible, addressing poverty, mobility and inclusion directly, efficiently and effectively; they build social justice and solidarity as the essentials for an inclusive and coherent society; because all are covered, quality is less likely to be compromised.

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There have been debates about the advantages of universal benefits almost since the Beveridge Report itself was published during WWII. Based on solid economic arguments, commentators (Field et al., 1977; Townsend, 1979; Commission on Social Justice, 1994; Walker et al., 2011) have defended their superiority over means-tested benefits. Nevertheless, there has constantly been a counter position taken by conservatives in all parties. To inform the anticipated Labour Government, the Commission on Social Justice (1994) argued that “Means-testing, the Deregulators’ panacea, will not work: means tested benefits are not worked, they are expensive to administer, they encourage dependence on benefits by trapping people on welfare, they penalise saving, and they provide disincentives for women to take paid work” (p8). Despite the strength of their case, the incoming Blair government never accepted the proposal for a Minimum Income Standard (p225). This typifies the repeated rejection of Labour in office of the rationale for universalism; while Field et al (1977) reported in a significant study on “the ineffectiveness of means tests as a weapon against poverty” (p87), when in power over the last 40 years it has expanded progressively their role in the welfare state.

## Conclusion on economic impact

Those societies which embed universalism into their welfare systems are the most successful on whichever performance index is chosen, including economic growth (Wilkinson and Pickett, 2010; Stiglitz, 2012), prosperity (Legatum Institute, 2012) and competitiveness (WEF, 2011). There is a clear and established causal link between equality and sustainable and sustained economic development (Lansley, 2011), and universal benefits are the bedrock of all the European societies who lead the rankings which measure economic success in particular.

The experiences of the Nordic countries demonstrate that, far from universal benefits being unaffordable or not the way forward for competitive economies, the reverse is true. Cohesion and inclusion are the hallmarks of these societies and the promotion and building of social capital and equality are elemental in sustaining their individual and collective prosperity. Universal benefits paid to all carers, the disabled and others at risk of exclusion reduce their dependency and give them the resources to play a fuller role in society. In reality, the opportunity costs of such payments (effectively the taxes to fund the benefits) are low as they impact most strongly on those whose needs are already fulfilled. Indeed, by putting downward pressure on conspicuous consumption of imported goods and services and by

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diminishing house price inflation, the economy in aggregate is automatically stabilised and the economic cycle dampened.

Attacks on universal benefits therefore are neither supported by economic theory nor by economic outcomes. Throughout the history of the welfare state, means-testing has been a vehicle to cut not only expenditure on 'those who can afford it' but also on the poorest (Walker, 2011, p134). By withdrawing incomes from the poorest in society, who already suffer from the highest marginal tax rates, further deflationary pressures are introduced which will drive the UK deeper into recession. The working poor are being further dis-incentivised as tax credits are cut while those unable to work because of caring responsibilities, disability, age or lack of jobs have to reduce their own spending to avoid loan sharks and escalating debt. The poor spend locally and support their economies, the rich avoid and evade tax, have a high propensity to import goods and services and to invest abroad. Shifting society's resources and wealth from the rich to the poor addresses poverty directly, more equal and inclusive societies are more successful economically, universal benefits are absolutely key to such societies: the economic case is transparent.

Walker (2011, p150) reminds us why the economic bases for universal benefits should not be ignored nor dismissed in an anti-intellectual simplistic analysis by quoting Townsend (1968, p121): "What is at stake is not just the most technically efficient or cheapest means of reaching an agreed end. It is the kind and quality of the society we wish to achieve in Britain."

# Universalism, Taxation and Redistribution

Progressive taxes and universal benefits are the joint pillars of the welfare state, yet in the UK both are under attack. In Scotland a debate has been initiated which questions the very principle of universal social provision. Meanwhile at UK level the Treasury has reduced the progressive nature of the UK tax system (changes to corporation tax and greater tax share coming from purchase tax or just general moves to flatten the tax system such as the removal of the 50 per cent rate on earning over £150k) (HM Treasury, 2012). This was done on the basis that the higher rate failed to raise projected revenue due to changes in behaviour i.e., avoidance techniques the majority of which was to bring income forward into 2009/10 something that could only be done once (HMRC, 2012).

Progressive taxation is when the tax rate increases incrementally as the taxable base amount increases. As a simplified and indicative summary of the way income tax bands work currently in the UK we could say there are three income tax bands with the top one now removed.

Income Level (up to)	Income Tax take
£8,105	0%
£35,000	20%
£150,000	40%
>£150,000	50%

This is an extreme simplification as there is a range of allowances and tax credits that change these tax takes significantly depending on personal circumstances. However this illustrates the principle of progression.

This of course only considers income tax, approximately £154 billion in 2011/12 (HMRC, 2011). Other taxes such as National Insurance (£102 billion, much less progressive even than our current income tax system), Corporation Tax, VAT, Fuel (£173 billion) and other Excise Duties are all regressive flat taxes set at fixed percentages and so fall more lightly on the rich. So the bigger a profit a company

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makes the lesser proportion they pay in tax and the more wealth or income an individual has the less proportion of that they will pay in VAT and excise on the same level of purchase as someone with less income/wealth. This means that if we agree that progressive tax is a good and vital thing (as demonstrated below) then the income tax system has to rebalance the regressive nature of the overall tax system before it can even begin to do the job of balancing out growing income inequalities.

Nobody likes to be taxed. It is often cited as one of the two dark certainties in life – the other being death. Just as life is the payback for death we need to be able to see a return for taxation. Taxation is a fundamental element of the state. It is difficult to imagine any sort of state that did not require to pool citizens' resources in order to exist. At its most basic and earliest manifestations this takes the form of security through treasure or labour for armies; but as we know this has gone on to develop into more complex pooling and provision. We should not conflate the state and society as the same thing although they are clearly linked and if democracy operates as it should then the state should always operate in the interests of society. That it might not is a call to improve our democracy.

The overwhelming social instinct of human beings seems to be to group together in larger communities as is demonstrated in the rise of the modern city. In 2008 for the first time in history more people worldwide lived in towns and cities than in rural areas (UNPFA, 2008). The state appears to be at once a function of that social instinct of collective organisation and search for identity and a product of power accumulation of leaders, as an end in itself but also, as always, as a search for security.

This is not to disregard the massive role of political economy; it is just to be unsure about which drives which. For sure accumulation of capital, centralisation of mass production and therefore resources and the ease of supply and exchange of all sorts of goods including cultural ones have all shaped our state and its functions. In fact it may have been inevitable that market economies have been so far the most successful means of organising our society. Some might say that economics is such a dominant force that the rest are insignificant. However it is clear that economics are part of our social existence. The need to trade, to accumulate wealth and power, has as much to do with instincts such as status and sex as it does with material requirements such as shelter.

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We have also found or decided that some form of democracy seems the best way to manage the state if not the economy. There are reasons that the economy tends to remain perhaps too free of democratic control. It was probably Milton Friedman that said: “No one is in overall control of the production, distribution and supply of bread in New York but the shelves are full every morning”.

This is an idiom illustrating an argument that has been extremely successful and has come to dominate much thinking on political economy. Allowing market mechanisms to be free to operate in most economies as apparently the best way to ensure information, capital, labour, supply and demand interrelate in our economy to ensure growth in material security and standards of living, is the dominant ideology of our age.

Of course this free economy itself cannot operate without collective/common goods. Infrastructure and rules are required if market economies are to function properly. Firms do not fund or organise national road or rail systems, cannot provide a legal system, judiciary and police force to enforce contracts and to stop theft. The market can't educate enough of the people required for labour. So even from the most liberal market perspective states have vital functions and require resources to fulfil them. It might be termed the provision of 'civilisation' without which few if any of the 'successful' individuals or firms would have prospered. All but the most extreme ideologues are forced to admit that taxation like death is inevitable. This may lead on to reasoning that we must find the most efficient way to raise money to pay for these basic services, which is of course well short of an argument for progressive taxes. Many people who want the state to merely facilitate the market will argue for a flatter tax system predominantly on the grounds of simplicity and efficiency, arguments that when closely examined boil down to making taxes less of a burden on the rich and powerful so that they don't change behaviour to try and avoid paying them. This does not address the need for a redistributive system with equality and social solidarity the conditions of a good society.

Even Friedman to some extent would acknowledge that such 'free markets' have social consequences. Even if the system worked freely without the intervention of market players, imperfect or distorted information, abuse of market power and drive towards monopoly, our economic system creates gross inequalities. The concentration of resources whether it be capital, information, education or social networks, into individuals, groups and firms in turn allows the further accumulation

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and concentration in those very same places. A system that values and creates scarcity as an existential necessity means many other individuals and groups will have less.

Having acknowledged a consensus for the state in some form and therefore for taxation, it is necessary to demonstrate why a highly progressive tax system is better than a flatter system. Many of us would argue that the state is required to do a lot more than just facilitate the market (which is not to discount that function). However it is false and damaging to divorce economic function from social function. Trains are good for going to meet friends as well as going to work and in fact some people might go to work with their friends. The state as a local or national democratic collective should search for ways to facilitate the good society. That is a society that values and supports both work and friendship equally and the relationship between them. A laissez-faire approach merely drives inequality.

As Richard Wilkinson and Kate Pickett showed in their book 'The Spirit Level' on a vast range of indicators from drug addiction to teenage pregnancy, violence to obesity, more equal societies do much better than unequal ones, for everyone. We know inequality in the UK has been increasing. Between 1986 and 2011 the richest 1 per cent saw their real earnings rise by 117 per cent while the lowest paid 10 per cent of workers saw their wages increase by only 47 per cent a year over the same period (Guardian, 2012). So we need a tax regime that can level out the inevitable inequalities caused by our economic system. There is a political project required around building a case for such a tax regime.

This is about taking resources away from those that have accumulated lots and giving it to those that have less. This is not only about straight money transfer but is about rebalancing the accumulation of information, education, social networks and possibly capital. Fundamentally it is about redistribution of power. Ed Miliband touched on this with his predilection for 'pre distribution' (as reported in Guardian, 2012). This is worthy as far as it goes, limiting train fares and supporting a living wage are useful. However in Miliband's version he seems to have ignored the most powerful tool in the state's box; taxation, particularly wealth and transfer taxes. This is presumably because taxation is such a politically sensitive subject and talk of increases has been seen as a 'third rail' issue. There has been a dereliction of duty by politicians of the left for a generation in failing to make the arguments for progressive tax. Professor John Curtice demonstrated with the British Household

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Survey that support for redistribution fell after New Labour came to power when Tony Blair refused to condemn the growing gap between rich and poor (BBC, 2003) and Peter Mandelson was 'intensely relaxed about people getting filthy rich' (Telegraph, 2011). The reason support fell after Labour came to power seems to have been that if the very party that used to stand for redistribution did not support it then why would anyone else?

Finding the best way to do all of this is a work in progress but has been greatly hindered by the dominance of two wrong ideas.

Firstly that there is some sort of unfairness in this process. That those who have worked hard to accumulate those resources are being mistreated in having to share them. To accumulate wealth one has to have effectively exploited the collective frameworks and common goods described above as 'civilisation' and employ them to further exploit natural resources. Advantages in ability to do this are conferred on individuals as accidents of birth whether that advantage be genetic or social. Is this really so meretricious? If you have managed to take more out then surely you should put more back?

Secondly that there is a 'moral hazard' and that people will relinquish responsibility for work or achievement if they do not fear failure. This predicated the whole of our society on fear and anxiety and gives rise to many morbid consequences. Can we not find better motivations for human endeavour than fear of failure? What about service, creation, caring, fulfilment, responsibility? These are just a few examples; there are many more. This is about political choices we make in construction of our culture but importantly it is about competing visions of a good society.

These wrong ideas feed into the orthodoxy that high taxes and benefits damage economic growth and efficiency. There may be many reasons to avoid high public spending and high taxation but economic efficiency is not one of them. Despite the best efforts of 'Chicago School'-inspired Swedish economists they could not show either correlation or cause between higher taxes and benefits and lower economic efficiency (Esping-Anderson, 1996). It is worth acknowledging that it is insufficient to make the argument on terms of narrow economic efficiencies as these tend to play into the hands of orthodox and increasingly discredited economic models. However even on their own terms the neoliberals' case for lower taxes and benefits can be challenged.

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Korpi and Palme (1998) observe that universal systems enhance the possibilities for poverty relief. Their result is referred to as the 'paradox of redistribution', because of the somewhat counter-intuitive finding that systems where benefits are not targeted towards low-income earners are the ones where low-income earners gain the most. The standard theoretical explanation of this finding is that universal – as opposed to targeted – systems receive broad political support and generate more egalitarian outcomes than competing market institutions.

The emerging political argument at the present to both undermine, first universal benefits, and then by association progressive taxation is that rich and middle class people are getting benefits that they don't need (for example free bus passes, free prescriptions, free tertiary education). An easy and straightforward argument for progressive tax is that higher taxes for richer people compensates for their access to these benefits. This is an argument we give up at our peril.

If we allow the rich or the middle classes to be removed from access to benefits then we start to weaken the coalition in support of progressive taxation which is our main instrument in creating a more equal and therefore better society. When the major benefit programmes include the middle class among those who benefit, the resilience of the universal welfare state is expected: voting to preserve the welfare state will be in the narrow self-interest of a majority of the voters. Two theoretical accounts of these mechanisms are Moene and Wallerstein (2001) and Hindriks and De Donder (2003). Second, Goodin and Le Grand (1986) have identified several forces of 'creeping universalism', where programs originally targeted to the poor are infiltrated by the middle class. In fact, Le Grand and Winter (1986) showed unsurprisingly that the Conservative Government in Great Britain in the early 1980s favoured government services that were extensively used by the middle classes.

This is in accordance with the empirical findings in a research paper on the Swedish Welfare State by Andreas Bergh (2004). It is true that most programs in Sweden are not targeted to the poor, but they do not cover the entire population regardless of ability to pay either. Instead, many of the major components of the Swedish system are targeted to the middle class to varying degrees, excluding both low- and high-income earners. Bergh states that "we do not need to be particularly speculative to suggest that this bias towards the middle class contributed to the resilience of the universal welfare state during the economic crisis of the 1990s in Sweden". That crisis involved banking failure and recession similar to that which we are now

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experiencing in the UK. We should learn that not to support universalism will remove the resilience of our welfare state and leave it open to attack and degradation by its enemies.

Progressive taxes and universal benefits are the joint pillars of the welfare state. Without either the roof will fall in. We know unequal societies are harsh and painful for many. The state and progressive taxation are vital to ensuring equality and in creating a good society. The neoliberal project is damaged but like a walking zombie refuses to die. The wrong thinking and narrow orthodoxies remain like a hangover from a bad party that went on too long. Let's not fall back into those narrow ways of understanding our political economy and society just because we lack the courage or creativity to find something better.

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# The Political Philosophy of Universalism

At the Labour Party Conference in Blackpool in 1949, Aneurin Bevan said “The language of priorities is the religion of socialism”. A distortion of this quotation has proved a justification for a radical shift in the philosophy of the contemporary Labour Party. It became, through a process of degradation, Tony Blair’s fetish for “tough choices” and provided a cover for the shift from one political philosophy to another. Understanding the political philosophical implications of universalism is as important as understanding the fiscal and economic implications.

It is worth emphasising the two phrases which lie at the heart of the concept of universalism:

***“From each according to ability to each according to need”;*** and

***“From the cradle to the grave”***

As has been made clear in the tax section, this is nothing more than the two elements of the philosophy of the universal welfare state – progressive, redistributive taxation and seamless provision of social welfare for all in a linked social system. But it is very clearly something more than simply a statement of management principles; it is a statement about the fundamental means of ordering society. It is measurably the most successful system of ordering society we have yet to achieve if success is to be defined by the balance of economic and social performance (Wilson and Pickett, 2010). And it is arguably the most morally and ethically successful means of organising advanced society yet devised, one in which the worst impacts of poverty, ill health, social breakdown and other social failure are significantly mitigated if not entirely removed.

In the most general terms, there are three philosophical means via which society can respond to social problems:

- Universalism assumes that core social functions should be equally available to all irrespective of any personal, social or economic attribute.
- Selectivity assumes that targeted support should be provided by the state to those assessed as unable to secure that provision in their own right, but that this should not be provided to others.

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- Charity assumes that there is no inherent state need to provide social provision and that social failure should be met voluntarily.

While there are of course different elements of these approaches identifiable in different social systems, broadly western societies moved from a charitable system to a universal system through the first half of the 20th century and then from universalism towards selectivity in the period from around 1970. In practice now, western societies would not be able to revert to a system based solely on charity; both the Public Good needs of universal services such as education are crucial to economic survival and the social cohesion implications of removing a guaranteed safety net from the population would be excessively damaging to an advanced society.

What we therefore have in practice is a straightforward philosophical debate about the balance of two social approaches to the organising principles of society. That both approaches exist in almost every advanced western nation must not be taken to mean that they are two 'versions' of the same approach; they are not. It was always recognised that universalism has limits and that it necessarily has some degree of selectivity (payments to help people with the financial burden which comes with disability are clearly not payments everyone should receive and no-one would argue that certain consumer goods are a 'universal right' that all should get free of charge). But the limits of universalism are defined by function and not primarily by cost; that an able-bodied person does not get disability allowances is not to save money and nor is the fact that no-one is entitled to 'free beer'. When one says 'here ends universalism' it is on the basis of social accounting and not fiscal accounting. The reason that this makes universalism so attractive is that it both binds society together and is an incredibly effective and efficient means of delivering social services.

A selective approach is different. It begins not from an assessment of social need in a flexibly-adaptable system but from an assessment of affordability in a system in which a crucial part of the equation is fixed solid. A selective approach separates the 'ability' and 'need' elements of the universal philosophy. It instead fixes the contributory element of the system (the tax element) on the basis of other political considerations and scales the provision element in a zero-sum game of 'so what are we going to spend this on?'. Welfare provision then becomes only one part of an expenditure programme which is no longer predicated primarily on a social contract.

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In fact, the social contract itself is changed; now the responsibility of government is not so much to create the best possible society but to take from the individual the minimum necessary. Here tax is no longer seen as an expression of the very values of society ('from each according to ability to each according to need') but as an unfortunately necessary evil. This is a fundamentally different way of understanding the social contract.

### **Why did we see this shift from universalism to selectivity?**

Simply put, this was one essential function of the dismantling of the post-war welfare settlement. It is at the heart of neoliberal politics; a society in which the right of the individual to pursue an unfettered strategy of self enrichment is believed to be the best means of organising society. This is presented as 'don't tax me for what I don't receive', an outright rejection of the concept of redistribution. Selectivity is presented as a means of allowing everyone to get richer, but it is very demonstrably no such thing. In practice, selectivity is a means of allowing a few to become richer through a process of ever-increasing inequality. The period in the west in which the post-war gains in reducing inequality were lost coincides with the rise of selectivity.

But even this is to misread the political philosophy of selectivity, because in practice the primary beneficiaries are not simply those who have a slightly lower tax bill. Selectivity is a philosophy most energetically pressed for by corporations since it is often corporations which are best able to benefit. For decades the US healthcare corporations were greatly frustrated by their inability to expand. The US market was saturated, the markets in the developing countries insufficiently developed to be profitable and the potentially lucrative markets of western Europe were stubbornly closed through the practice of universal state provision.

It is rare that the case for selectivity is not accompanied by the case for privatisation. Take an example like the introduction of variable tuition fees for universities in England. Every piece of rhetoric was orientated to the argument that this was just a fairer way to fund higher education, the participants (incorrectly) taken to be the primary beneficiaries. This was not a change in university education, only in how it was paid for. Except very quickly there was a parallel agenda of altering the criteria for achieving university status to enable for-profit universities to be established and

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then highly ideological decisions were taken about which courses would be state subsidised, primarily predicated on the views of industry.

Selectivity is a cornerstone of neoliberal economics, injecting markets into every possible aspect of life with the primary purpose of transferring wealth from individuals to corporations. Wherever we can identify reduced social provision we can identify commercial back-fill. It is this too which creates such rapidly-increasing levels of inequality wherever selectivity takes hold.

So, it is essential to understand that these are two separate political philosophies. One asks 'how can we make society as good as it can be?' and the other 'what is the least we can do to stop society failing?'. One says 'we create a social contract on the basis of our role as citizens' and the other 'we create an economic contract and deliver social services only where that economic contract fails'. One says 'there is a need to mitigate the power of the few over the many' and the other says 'the guiding principle of society is the capacity of the few to exert power over the many'.

To misunderstand this is politically dangerous. It is to believe that neoliberal consumerism is actually a means of redistribution when precisely the opposite is the case. That this right-wing political philosophy is now redefined as a left-wing philosophy is one of the most corrosive pieces of political drift we have seen in the UK. Reducing services to the rich is universally recognised as one of the most certain ways to reduce services to the poor – the empirical evidence against the claim that universalism benefits the rich is reinforced again and again throughout this report.

So let us put this clearly; when Nye Bevan said socialism is about priorities that was not for a second a challenge to the principle of universalism. It was a simple statement about the need to engage in a debate about the necessary functional limits of universalism. For any politician in the UK unaware of the implications of rejecting not the limits of universalism but the very principle of universalism, they should take some time to consider the philosophical and practical outcomes of such a rejection;

- Rejects social solidarity for consumerism;
- Puts the priority to reduce tax for the affluent ahead of social solidarity for the non-affluent;

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- Undermines the idea that people have a right to certain social services simply by dint of being a citizen;
  - Enables a debate which always facilitates greater corporate exploitation of citizens;
  - Creates a system so inefficient it is destined to under-perform, further undermining the system itself.

People are looking at the wrong quotation from Bevan; what they should be reading is “soon, if we are not prudent, millions of people will be watching each other starve to death through expensive television sets”. Such is the price of failure to understand the difference between principle and pragmatism.

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