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The Coalition and Universalism

Cuts, targeting and
the future of welfare

Andrew Harrop
incorporating research by Tim Horton

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Fabian Society
11 Dartmouth Street
London SW1H 9BN
www.fabian-society.org.uk

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The Coalition and Universalism

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Fighting Poverty and Inequality in an Age of Affluence

This paper is the final publication of a multi-year research project, conducted by the Fabian Society and funded by the Webb Memorial Trust, to commemorate the centenary of Beatrice Webb's 1909 Minority Report of the Royal Commission on the Poor Law. The project addressed how the values and insights of the Minority Report can animate and inspire a radical contemporary vision to fight and prevent poverty in modern Britain. The paper is a follow-up to our 2009 book *The Solidarity Society: why we can afford to end poverty, and how to do it with public support* and updates the argument for universalist solutions to poverty, in the context of the coalition government's spending policies. The authors would like to thank Lisa O'Dea for her assistance with the research.

About the authors and researchers

Andrew Harrop is General Secretary of the Fabian Society.

This paper draws on research conducted by Tim Horton while he was Research Director at the Fabian Society. Some of this research has previously been published in 'The fight for universalism: Cuts, targeting and the future of welfare', by Tim Horton (Public Policy Research, Volume 18, Issue 2, pages 105–114, June-August 2011). Tim Horton was Research Director at the Fabian Society from 2006 to 2011.

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1 | Summary

This report is the final output of Fighting Poverty and Inequality in an Age of Affluence, a multi-year project carried out by the Fabian Society and funded by the Webb Memorial Trust to mark the centenary of Beatrice Webb’s 1909 Minority Report of the Royal Commission on the Poor Law. It updates the analysis of our 2009 book *The Solidarity Society* by reflecting on the coalition government’s approach to universal welfare provision and examining further international evidence.

The coalition government’s policies to restrict the coverage of universal services and welfare payments have been very controversial, in part because they raise questions about the fundamental nature of the British welfare state. Universalism matters for poverty prevention because it generates majority public support for welfare spending, sustaining generous provision over time and aligning the interests of low, middle and high income groups.

Data from the 1970s to the 1990s for 11 OECD nations show that, counter-intuitively, welfare systems which are tightly targeted to low income groups tend to reduce poverty less. A system’s success in poverty reduction is instead related to the overall amount of expenditure. So the inefficiency of universal systems from a poverty-reduction perspective is more than offset by the higher expenditure they typically secure because of their wider public support.

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The government's stated reasons for making inroads into universal provision can all be challenged:

- *'Deficit reduction means cuts are a necessity'*: Many Conservatives spoke out against universal provision before the economic crisis, however. The cuts have been made at the same time as tax giveaways and they are intended to be permanent.
- *'Universal programmes are regressive'*: universal provision funded by proportionate or progressive taxation actually leads to a transfer from richer families to poorer ones.
- *'Targeting is best for the poor'*: while true in a single year, with fixed resources, our international analysis shows that the opposite is the case over time. Creating systems which pit the interests of low income groups against everyone else's is worst for the poor.
- *'Middle class welfare is illegitimate'*: the argument that universal provision is wasteful because it does not target need, or involves the same people paying-in and taking-out, implies a purely philanthropic vision of welfare, rather than the traditional and still popular view of welfare as social insurance. It is linked to an ideological claim that any attachment to state provision implies morally corrupting dependency, which most people reject in practice.

These four arguments apply in principle to all universal provision, including the NHS and state pensions, but they are constrained in practice by public support. This suggests that all universal provision may be vulnerable over the long-term, with future retrenchment likely to take the form of gradual 'salami-slicing' or a focus on less popular programmes. Politicians on the right can be expected, on the basis of their arguments, to seek fresh reasons to cut universal provision once the deficit is closed, such as demographic pressures. By then, once the worst of the deficit is paid off, it may be possible to have a more open 'battle of ideas', which is ultimately needed to defend the majoritarian basis of our welfare system.



2 | Introduction

Of all the debates over the coalition government's public spending cuts, some of the most animated and bitter have centred on reforms to restrict the coverage of universal benefits or services, removing them from higher-income households or targeting them specifically on lower-income households.¹ These include plans to remove child benefit from higher-rate taxpayers, to scrap the Health in Pregnancy grant (leaving only means-tested support for expectant mothers), to 'refocus' Sure Start on low-income families, and to remove many households earning higher incomes from tax credits. This restriction of universalism also extends to the abandonment of plans to create a national care service and to extend the coverage of free school meals. The prospect of further cuts to universal programmes has been floated by figures in the coalition parties in the form of restricting universal pensioner benefits such as the winter fuel payment and free bus travel.

Why have the debates on these issues been so contentious? Of course, these cuts represent significant losses for many families, including vocal middle-class constituencies (who are well-represented in the media). But perhaps it is also because there is an underlying sense that something larger is at stake, something more than deficit reduction? For protagonists on both sides of the debate, it is about the fundamental nature of our welfare state, viewed through competing visions of the good society.

This report uses these debates to explore the coalition's approach to targeting and universalism, and to ask what the prospects are for future

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reform. The coalition's stance has generally been one of scepticism about, or outright opposition to, universalism, except in one or two key areas such as state pension reform and the NHS (although, as we will discuss later, there is reason to treat their declared support for universalism in these areas with scepticism too). Section 4 of this report analyses these anti-universalist arguments. Before that, we look at why advocates of universalism believe it matters and, in section 3, outline comparative international evidence in its support.

This paper is the final publication of a multi-year research project, conducted by the Fabian Society and funded by the Webb Memorial Trust, to commemorate the centenary of Beatrice Webb's 1909 Minority Report of the Royal Commission on the Poor Law. The project addressed how the values and insights of the Minority Report can animate and inspire a radical contemporary vision to fight and prevent poverty in modern Britain. Our 2009 book *The Solidarity Society: why we can afford to end poverty, and how to do it with public support* set out the case for a universalist approach to ending poverty. This report updates the argument in the context of the coalition government's spending policies, drawing on original analysis of international datasets.

The project has demonstrated that universalism matters for poverty prevention and income redistribution. In addition to practical advantages, such as greater simplicity, higher take-up and the avoidance of disincentives from withdrawal, the key argument for universal policies is *strategic*: that they can more effectively generate majority public support for welfare. Sustaining generous welfare over long timescales requires the support of electorates. So policies with a wide base of support will be more effective anti-poverty tools in the long run.

How does this work? Through decisions about the coverage of policy, policymakers can align or counterpose the interests and identities of low- and middle-income groups. Policies with wide coverage will tend to secure the self-interested support of middle-income groups, while policies restricted to those on low incomes will create trade-offs between the interests of low- and middle-income groups.²

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Public perceptions of fairness are also important: studies of public attitudes show that, while people are often supportive of policies that give more to those on lower incomes, they feel uneasy about programmes restricted only to those on low incomes (Sefton 2005).

Here, perceptions can also be affected by another aspect of targeting: it divides the population into groups of recipients and non-recipients. Done insensitively, this can create a sense of ‘them and us’ in which recipients are no longer regarded as deserving and provision becomes stigmatised. Recent debates around housing benefit have illustrated this ‘politics of grievance’ very clearly, with widespread public support for the government’s planned benefit cuts being fed by a media narrative that portrays housing benefit recipients as scroungers.

Of course, targeting support is often necessary and desirable, especially where social groups exist with distinct or intense needs. But from a strategic point of view, universal policies are often much more successful at building the wide coalition of support necessary to sustain generous provision over time.

This strategic point assumes particular importance when we consider the evolution of welfare states over time. If the unpopularity of a targeted programme creates political pressure for cuts, this can lead to a vicious circle of residualisation and further unpopularity. Conversely, the popularity of universal programmes often drives pressure for increased investment, thereby protecting wide coverage and creating a virtuous circle. *The Solidarity Society* looked at these dynamics in UK welfare history through the very different trajectories of services like the NHS and social housing. This report builds on that analysis through comparative welfare state analysis, which offers a useful perspective by illustrating how the relative performance of different welfare states varies with their structure.



3 | International evidence on universalism, targeting and redistribution

Our research illustrates the dynamics of targeting and redistribution using data on countries' welfare states derived from analysis of the Luxembourg Income Study (LIS) by Hwanjoon Kim (Kim 2000a, 2000b). The LIS is the largest available income database of harmonised microdata collected from multiple countries over a period of decades. The datasets contain variables on market income, public transfers and taxes, and household- and person-level characteristics. We used a subset of 11 OECD countries from the LIS, with each data point representing a particular welfare state at a particular point in time between the late 1970s and late 1990s (the first four waves of the LIS).³ The data relates to tax and benefit systems only (though one could in principle extend this approach to look at the entire welfare states, if comparable data on the distribution of 'benefits in kind' across households were available).⁴

Figures 1–3 illustrate the relationships between three different properties of welfare states:

- *The degree of targeting* within a welfare state represents its 'redistributive efficiency' (sometimes called 'vertical efficiency'). This is typically measured as the proportion of total cash transfers which are contributing to the reduction of poverty. This is higher for targeted welfare states than for universal ones. Here, poverty is measured in terms of the 'poverty gap', which measures not

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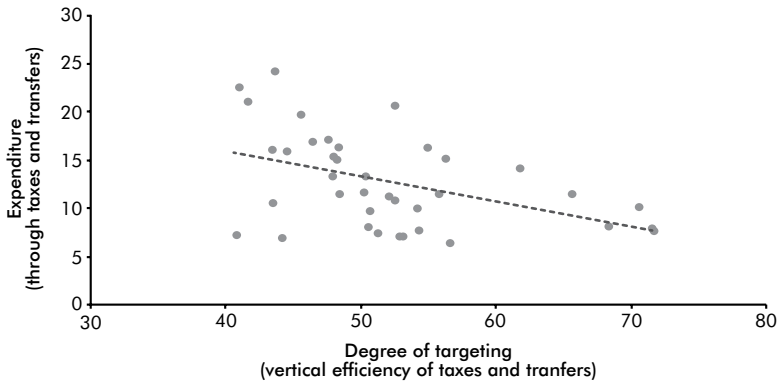
simply the number of people in poverty, but also how far below the poverty line their incomes are. So this measure describes the proportion of total cash transfers which have the effect of lifting personal incomes towards a poverty line. 'Transfers' in this context refers to 'positive net transfers', meaning transfers received net of taxes paid that have the effect of increasing household income (if 'transfers' were simply defined by the aggregate amount of net transfers, then the value would be close to zero as positive values for lower-income households would be offset by negative values for higher-income households). Vertical efficiency is therefore defined as the proportion of positive net transfers contributing to the reduction of the pre-tax-and-transfer poverty gap.

- *The level of expenditure* on welfare states represents their size (sometimes called their 'generosity'). This is measured as the ratio of transfer income to total household income. In larger welfare states, transfer income will constitute a higher proportion of total household income.⁵ Note that the size of a welfare state is conceptually independent from the degree of targeting: you can spend a lot on a targeted welfare state, with very high levels of benefits, just as you can spend not very much on a universal welfare state, with very low levels of benefits.
- *The amount of distribution* to people in poverty is the final property of welfare states; what's sometimes called their 'poverty reduction effectiveness'. This will depend on both the level of expenditure on the welfare state and the degree of targeting. Here, it is measured as the proportion of the poverty gap reduced by taxes and transfers (specifically, poverty reduction effectiveness is defined as the proportion of the pre-tax-and-transfer poverty gap reduced by net transfers).

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Figure 1 shows that the *level of expenditure* on these welfare states at different points in time (their size) is inversely related to the *degree of targeting* they exhibit (their redistributive efficiency): the more that programmes in these welfare states are focussing resources on the poorest, the smaller their size (correlation = -0.45). Interestingly, the negative correlation becomes a little stronger if you examine the relationship between expenditure at one point in time and degree of targeting a few years beforehand (in the previous LIS wave).⁶ This is one piece of evidence to suggest there is a causal relationship between a high degree of targeting and less generous welfare provision.

Figure 1: How welfare expenditure varies with degree of targeting, for a group of OECD welfare states from the late 1970s to the late 1990s



Source: Calculated from data in Kim 2000a. Expenditure is measured in terms of the proportion of transfer income out of total household income, on average for the whole population; degree of targeting is measured in terms of the proportion of transfers contributing to the reduction of poverty (i.e. both axes are percentages).

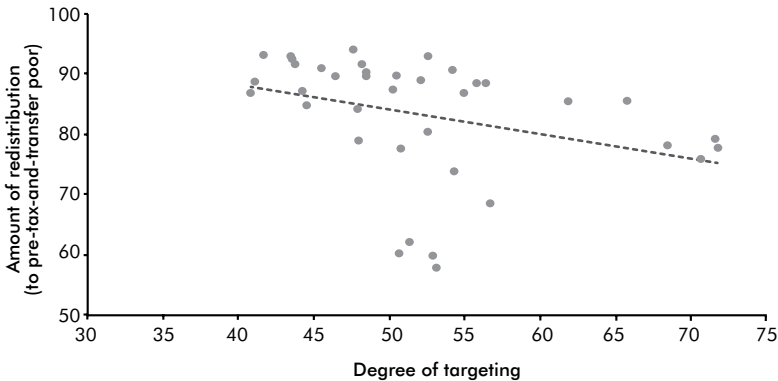
This is not a surprising finding for two reasons. First we would expect welfare states that target money tightly at one segment of the population to cost less, other things being equal. Second the overall size of a welfare system should relate to the willingness to pay of mid- and high-income taxpayers and, other things being equal, this will be lower when systems

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are more heavily targeted at low income groups. However this negative relationship does not tell us the best strategy for maximising redistribution to the poor. Even if increased targeting has the effect of reducing the size of welfare states, it could still be the best way to increase redistribution from those on high incomes to those in poverty. It all depends on whether the decline in willingness to pay, resulting from greater targeting, is so significant that the drop in overall spending more than offsets the redistributive benefits of the improved targeting. Figure 2 and Figure 3 show that it is. Appendix 1 sets out these relationships in formal mathematical terms.

Figure 2 is striking and highly counterintuitive. It shows that on average the amount redistributed to the poor actually *decreases* as welfare states become more targeted. Any increase in redistribution from an increase in targeting is clearly outweighed by the smaller expenditure that is associated with the lower willingness to pay of targeted welfare states. This confirms the hypothesis that strategies of targeting result in welfare states that do less redistribution to the poorest than strategies of universalism.

Figure 2: How redistribution varies with degree of targeting, for a group of OECD welfare states from the late 1970s to the late 1990s



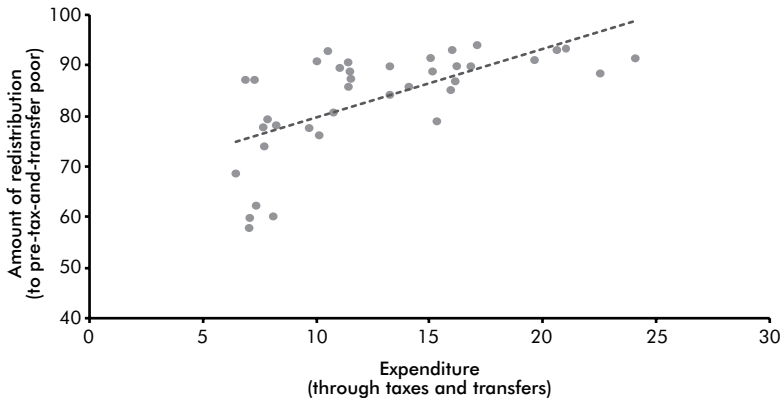
Source: Calculated from data in Kim 2000a. The amount of redistribution to the poor is measured in terms of the proportionate reduction in poverty through taxes and transfers, while degree of targeting is measured in terms of the proportion of transfers contributing to the reduction of poverty (i.e. both axes are percentages).

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Figure 3 shows the corollary of this: the amount of redistribution done by welfare states is strongly correlated with their generosity. In redistributive terms, the inefficiency of universal systems tends to be outweighed by the higher expenditure that results from their greater popularity.

This comparative analysis helps to explain what political scientists Walter Korpi and Joakim Palme (1998) have called the ‘paradox of redistribution’: ‘the more we target benefits at the poor only, the less likely we are to reduce poverty and inequality’. At the level of welfare states, it explains why those which are oriented specifically towards poverty alleviation (and therefore targeted) tend to end up with lots of poverty, while those which encompass middle and higher income households tend to have much less poverty. More generous systems offer entitlements which are genuinely attractive for middle-class households, creating sustained willingness to pay in.

Figure 3 How redistribution varies with welfare expenditure, for a group of OECD welfare states from the late 1970s to the late 1990s



Source: Calculated from data in Kim 2000a. The amount of redistribution to the poor is measured in terms of the proportion of pre-transfer poverty that is reduced through taxes and transfers (the definition takes account of the amount of money needed to lift people out of poverty as well as the number in poverty); expenditure is measured in terms of the ratio of transfer income to total household income (i.e. both are percentages).

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Ultimately, then, there is potentially a great deal at stake in debates about targeting and universalism. 'Common sense' approaches that seek to target resources narrowly on the poorest in the name of fairness may well, over time, harm the interests of the poorest and result in less redistribution.



4 | The coalition's opposition to universalism

Since the formation of the coalition government in May 2010, debates on universalism and targeting have been focussed on the major cuts to universal programmes described in the introduction to this report, nearly all of which have involved greater targeting. What arguments have been given in support of these actions?

Sometimes the justification has been couched in terms simply of financial necessity. But significantly many of the arguments used by coalition ministers over the last 18 months to justify these measures have not been practical arguments about resource availability at all, but arguments against the very principle of universalism. Here, we outline the key arguments and their limitations.

'Deficit reduction means cuts are a necessity'

The public justification offered for these policy changes has generally been a practical one: the need to reduce the deficit. Justifying the removal of the Health in Pregnancy grant, for example, Treasury minister Mark Hoban said: "We have had to take decisions that are not ones that we would have wanted to take, but we have had to do so because of the financial problem that we inherited ... What we need to do in the light of this financial crisis [is] to target measures on those who need them the most."⁷

But there are many reasons to question whether these policy changes are motivated solely by deficit reduction or whether they are in fact

more fundamental attempts to restructure the welfare state. First, many Conservatives voiced opposition to universal welfare programmes long before the financial crisis and the recession that caused the deficit. For example, on the expansion of tax credits up the earnings scale, Iain Duncan Smith, as shadow work and pensions secretary, complained that: “Packages such as the child care and the working families tax credit have increased spending and dependency”.⁸ Second, these spending cuts are happening at the same time as large, discretionary tax cuts (including cuts to the headline rate of corporation tax and an increase in the income tax allowance), suggesting the issue is more one of resource prioritisation than resource availability. Third, there are no plans to re-expand the coverage of the programmes being cut once the public finances return to the black – indeed, David Cameron has explicitly ruled this out: “Should we cut things now and go back later and try and restore them? I think we should be trying to avoid that approach” (Mulholland and Wintour 2010). These cuts are permanent.

‘Universal programmes are regressive’

The next type of argument against universalism is that universal benefits and services somehow represent a transfer of resources from poor to rich. For example, on child benefit David Cameron has declared: “We say higher earners should not get child benefit. Their child benefit is being paid for by some of the poorest people in our country.” George Osborne has argued: “It’s very difficult to justify taxing people on low incomes to pay for the child benefit of those earning so much more than them.”⁹

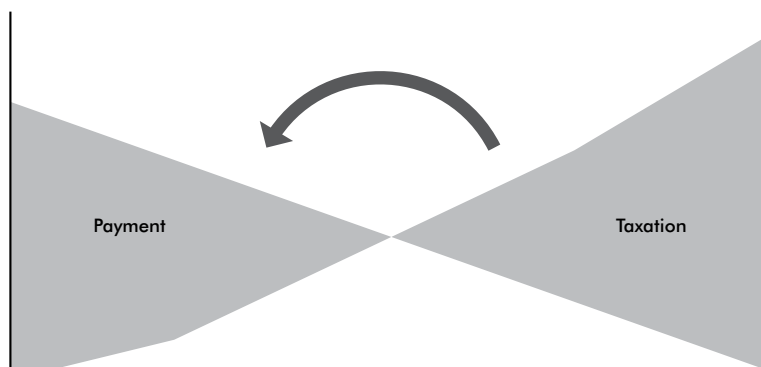
The objection to this can be simply stated. Universal provision can still be redistributive provided the revenue for it is raised through income-proportionate, or better still, progressive taxation. And this is precisely what happens in the UK. Analyses of contribution and receipt from the welfare state shows that those on higher incomes are

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net contributors, while those on lower incomes are net recipients.¹⁰ So in the case of child benefit, for example, high-income households pay for their own child benefit – and, in the process, put in a bit more for everyone else. Thus, there is no reason to link the tax payments of low-income households with the receipt of benefits and services by high-income households; there is no sense in which the former is paying for the latter.¹¹

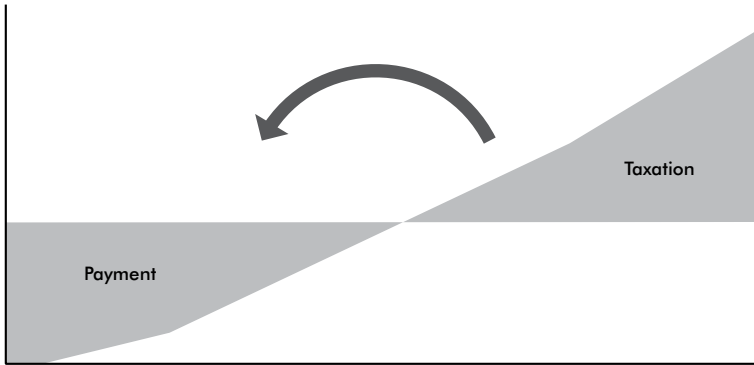
Figure 4 and 5 illustrate this point conceptually, with stylised graphs plotting taxation and transfer payments on a graph showing gross income (x-axis) against size of transfer (y-axis). The area of each ‘bow’ of the ‘bow-tie’ represents the size of the net transfer made from high to low income groups. The area under both lines shows the scale of self-financing welfare (where payments are funded by an individual’s own contemporaneous payments).

Figure 4: Redistribution achieved through income-related transfers and progressive taxation



Comparing an income-targeted welfare system (figure 4) and a flat-rate system (figure 5) shows that in the latter a greater share of total payments are self-funded but there is still considerable scope for redistribution, between the two now-lopsided ‘bows’ of the bow-tie.

Figure 5: Redistribution achieved through flat-rate transfers and progressive taxation



The conclusion is that universal payments are progressive – i.e. they distribute from high to low income groups – albeit less progressive than targeted measures, *assuming the same totality of spending*. This assumption is the foundation for the next key coalition argument in favour of targeting.

‘Targeting resources is best for the poor’

The second type of argument is that targeting resources on the poor is fairest because it is the best approach to help the poor. This is essentially an extension of the deficit-reduction argument – that given a fixed amount of resources it is fairest to target them. This may make sense in the short-term, if it is assumed that there is no flexibility in total levels of expenditure. But our analysis of international welfare states over time shows that the opposite is true over time.

Interestingly, it is this fairness question that has most engaged welfare campaigners and non-governmental organisations (NGOs) on both sides of the argument. The vast majority of NGOs have opposed measures to target universal programmes, including those known for their concerns about poverty and disadvantage; for example, the Daycare Trust has

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argued that “it is essential that Sure Start remains a service for the whole community and is not restricted to those on low incomes”, while Age UK has campaigned for universal pensioner benefits to be protected, insisting that “most younger and older people ... agree with the principle of universal entitlement” (Daycare Trust 2010; Age UK 2010).

By contrast, children’s charity Barnardo’s has been a relatively lone voice in championing the targeting of universal benefits. In autumn 2010, Martin Narey, then Barnardo’s chief executive, argued that “the case for abolishing child benefit while using the tax credit system to ensure poor families do not lose out is economically and morally overwhelming” and that “axing child benefit would save more than £5bn ... which could be used to protect the poorest” (Narey 2010). Narey also subsequently argued for the removal of universal pensioner benefits for similar reasons (Narey 2011).

What is wrong with this argument? It is misleading to talk simply about the fair use of resources as if there were a fixed pot available and the question was simply deciding how to distribute it. Within any particular year, that will be true: the revenue allocated to one programme can be spent in other ways, including being targeted more narrowly. But the key point is that the size of this pot can vary from year to year. And, as we have seen with social housing, where under-spending has become chronic as provision has become more narrowly targeted, history suggests that targeted programmes are unlikely to command the same political priority over resources as universal ones. So Narey is wrong to think that targeting child benefit would necessarily mean £5 billion to spend on the poorest in future years. In fact, as we saw from the comparative evidence in the previous section, in the long run greater targeting could well mean *less* money redistributed to the poorest.

In other words, ‘fairness’ in this context should be about more than how to distribute a fixed budget. It is profoundly *unfair* to those on low incomes to reconfigure welfare programmes in a way that pits their interests against those of middle-class taxpayers. This makes the position of the poorest far more vulnerable over the long term. As the

Child Poverty Action Group has argued in defending universal child benefit, "removing the better-off from the welfare system ... damages social solidarity just when it is needed most" (Green 2009).

'Middle-class welfare is illegitimate'

Hovering behind the argument that targeting resources on the poor is the *fairest* approach is often a much stronger claim: that it is the *only* legitimate approach. This is the ideological core of much Conservative opposition to universal welfare. It stems from both a general libertarian opposition to taxation – and thus a desire to minimise public spending by endorsing only need-based welfare – and also from a view that to receive collective welfare provision is to be 'dependent' on the state in a morally compromising way.

A high proportion of arguments made by Conservatives against universalism over the last 18 months have been of just such an ideological nature, implying that middle-class welfare is illegitimate in principle. For example, on tax credits work and pensions secretary Iain Duncan Smith has commented: "Under the last government ... you had people on over £50,000 who were eligible for some form of benefit. I think that is completely bonkers", while on Sure Start David Cameron has argued: "It can't just be a service that everyone can jump into and get advantage out of."¹²

This is a fundamentally different vision of welfare from the traditional idea of risk- and resource-pooling – of buying your services and insurance through the state – on which the post-war welfare state was based. Rather, it is a strictly philanthropic vision of welfare, one that sees a legitimate role for social provision only to the extent that it is a transfer of resources from one individual to another, coupled with the view that this enterprise should only ever cover the neediest minority of the population.

This Conservative vision of welfare, in turn, gives rise to a further range of criticisms of universalism, including:

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- the argument that middle-class welfare is a ‘gimmick’ or ‘bribe’ – right-wing think tank Reform, whose writing on universalism and targeting has been a strong influence on Conservative thinking, argues that “politicians’ desire to appeal to the self interest of voters has created an entitlement culture” (Haldenby 2009: 8);
- the argument that universal welfare is ‘inefficient’ because it results in taxpayers receiving back benefits and services – again, as Reform argues, “this money-go-round, or churning, is undesirable because it indicates that some government expenditure is unnecessary and this unnecessary expenditure leads to taxes having to be higher than otherwise” (Cawston et al 2010: 11);
- the argument that universal welfare is ‘wasteful’ because it is not targeted on those in need – as London Assembly member James Cleverly put it in opposing Southwark Council’s decision to introduce free school meals for all children, “universal benefits are inherently wasteful”.¹³

Note that each of these criticisms imply a coalition ideology of the kind we have been discussing here, since they only make sense if you first accept the premise that welfare should only be for those ‘in need’ and that middle-class welfare is therefore unnecessary.

Perhaps the strongest ideological objection to universalism, however, is the notion that middle-class receipt of benefits or services creates a harmful ‘dependency’. This reflects a libertarian view that being a ‘good citizen’ necessitates detachment from schemes of collective provision. Thus, Nick Clegg has justified welfare cuts by arguing that “dependency of any kind offends against this unwavering liberal commitment to self-reliance: and welfare dependency is no exception”,¹⁴ while think tank Reform argues that, “middle and high earners, who could and should be independent of public welfare, instead use their political weight to extract ‘their fair share’ from government, through universal benefits”.¹⁵

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This is ultimately an ideological position, and whether you agree or disagree with it will depend on your concept of 'dependency'. As Stuart White has recently observed, this libertarian argument conflates the idea of 'independence' with 'self-reliance'; the reality is that, for many people, benefits and services are essential to ensure real independence (White 2010). And, given that most polls show high public support for universal benefits and services, most voters clearly don't think that drawing on public support makes them 'dependent' in a morally compromising way.¹⁶



5 | Prospects for the future

These principled arguments against universalism are arguments against universalism in all areas. If you think it's true that universal child benefit is unfair because it means someone on a low income paying for someone on a high income, then presumably you think the NHS must be unfair too. If you think child benefit creates dependency, then presumably you think the basic state pension does too. So in making these arguments, Conservatives and Liberal Democrats have left themselves open to the charge that they would secretly like to target all aspects of the welfare state.

But – for now, at least – the coalition has been keen in some areas to back universalism and support provision for middle-class households. One is the NHS, where Cameron has stressed “we will not endanger universal coverage – we will make sure it remains a National Health Service”; another is pensions.¹⁷ How much these statements will reassure remains to be seen, given that prior to the 2010 election Cameron had also rejected the targeting of child benefit.¹⁸ Suspicions will also be heightened if the coalition follows the calls of many on the right (and some on the left) to target the winter fuel payment and free bus passes, given Cameron's pre-election pledge to protect them: “You have my word. If we win the election, we will protect all of these things.”¹⁹

To summarise, the coalition government's approach seems best described as a principled opposition to universalism, constrained in practice by public support for universal programmes. This suggests we

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will see continued moves to dismantle or target universal programmes, though at each stage focussing on the least popular programmes and, where possible, trying to offset the loss for households via discretionary tax cuts. Where programmes are popular, such as child benefit or tax credits, evidence so far suggests that retrenchment will proceed by 'salami-slicing' coverage away in a series of stages, ensuring that no single cut applies to a large enough group to generate insurmountable public opposition.

Opposing these moves has been an important theme for Labour over the last year, with Ed Miliband vowing to stand up for the 'squeezed middle' by protecting universal programmes. Here, the defence of universalism can simultaneously be motivated by wanting to protect the long-term interests of the poorest as well as to reach out to mid and high-income voters. It will be interesting to see how this approach informs Labour's policy programme in the coming years, and whether this goes beyond simply defending existing universalism and extends to building a truly majoritarian welfare state that can serve as a vehicle of middle-class aspiration as well as a vehicle of poverty prevention.

Currently, the coalition's assaults on universalism are, superficially at least, grounded in the imperative of deficit reduction. But if the diagnosis here of an underlying ideological opposition to universalism is correct, then as we emerge from the shadow of deficit reduction in the years ahead we should also expect to see a shift to new justifications for retrenchment. These are likely to be assertions about the fundamental unsustainability of the welfare state, drawing on concerns about the impact of demographic change over coming decades (and it is unlikely that paying more to maintain our services will be countenanced as a solution to this 'sustainability crisis'). Arguments such as this were certainly prominent in right-wing advocacy against universalism before the financial crisis hit.

But as we emerge from deficit reduction we might also expect to see a return to more explicitly ideological arguments against universalism: both the idea that middle-class welfare and services are 'unnecessary'

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and the idea that receipt of welfare and services creates 'dependency'. Indeed, this might not be a wholly unwelcome political development if it ushers in a broader 'battle of ideas' about the role of government – a debate that political parties have been wary of joining in recent years.

During the current period of spending cuts, campaigners for social justice know they will need to fight hard to defend much welfare provision for the poorest. But their real test will be whether they can make these battles part of a longer-term strategy to defend the majoritarian basis of our welfare state. Without that, historical and international evidence suggests the outlook for the poorest in society will be so much bleaker.



Appendix 1 | A formal expression of the relationship between willingness to pay, targeting and redistribution

In Section 3 of this report we saw in action Richard Titmuss' famous dictum that 'welfare for the poor becomes poor welfare'.²⁰ We also saw evidence as to why this is so. When looking at welfare states comparatively, higher levels of redistribution from targeting welfare more narrowly on the poorest tend to be outweighed by the lower levels of redistribution that results from the smaller size of more targeted welfare states. The key mechanism by which this occurs is the lack of popularity of targeted policies compared to universal ones, and the correspondingly lower public willingness to pay into targeted welfare states.

In this Appendix we look at how we can model this insight formally, and explore in more detail the relationships between these important properties of welfare states, in order to shed further light on the dynamics of redistribution in welfare states.

1. The amount of redistribution performed by welfare states

In comparative welfare state analysis, the *amount of redistribution* (R) achieved by a welfare state (or here, specifically, a tax-and-transfer system) is traditionally expressed as a product of the *size of tax-and-transfer expenditure* (S) and the *vertical efficiency* or *redistributive efficiency* (e) of the system.²¹ This is an accounting identity: the amount redistributed is the amount of money flowing through the system multiplied by the proportion that is redistributed. This is expressed as below:

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$$R = \text{efficiency} \times \text{size}$$

or

$$R = e \times S \quad [\text{Equation 1}]$$

2. Making public attitudes endogenous to the system: willingness-to-pay

What happens when we make public attitudes endogenous to this process of tax-and-transfer redistribution?

The size of a tax-and-transfer system will depend upon public willingness to pay for it. Typically this would be calculated as a summation of individual willingness to pay (w_i), weighted by individual ability to pay (a_i), as follows:

$$S \propto \sum (w_i \cdot a_i)$$

(Here, and in subsequent expressions, we use the term 'is proportional to' (\propto) rather than 'equals' ($=$), in order to avoid the proliferation of 'dummy' terms for coefficients and constants)

In reality, the size of tax-and-transfer expenditure will depend heavily on middle and high income groups' willingness to pay, since their greater ability to pay makes their willingness to pay correspondingly more important than that of low-income households (and this is especially in a progressive tax system).

In other words:

$$S \propto W_{\text{middle-class}}$$

...where $W_{\text{middle-class}}$ is an aggregate measure of high and income groups' willingness to pay (here described as 'middle-class' for ease of reference).

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Putting this expression for S into *Equation 1* gives us

$$R = e \times S \quad [\text{Equation 1}]$$

$$\Rightarrow R \propto e \times W_{\text{middle-class}} \quad [\text{Equation 2}]$$

In other words, the amount of redistribution done by a tax-and-transfer system will vary with middle-class willingness to pay into it.

3. Making public attitudes endogenous to the system: the link between targeting and attitudes

Now, from the public attitudes research discussed in the main body of this report, we also know that middle-class willingness to pay varies inversely with redistributive efficiency: in general, the more that resources are narrowly targeted on those on low incomes, the lower middle-class support is for the policy in question.

We can describe the fact that middle-class willingness to pay ($W_{\text{middle-class}}$) varies inversely with redistributive efficiency (e) using the term $1/e^n$ (in which 'n' is a power term that we will discuss further below). In other words:

$$W_{\text{middle-class}} \propto \frac{1}{e^n}$$

So, putting this expression for $W_{\text{middle-class}}$ into *Equation 2* gives us:

$$R = e \times S \quad [\text{Equation 1}]$$

$$\Rightarrow R \propto e \times W_{\text{middle-class}} \quad [\text{Equation 2}]$$

$$\Rightarrow R \propto e \times \left(\frac{1}{e^n} \right) \quad [\text{Equation 3}]$$

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So, to summarise, we have derived an expression for the amount of redistribution that a tax-and-transfer system achieves that contains a measure of the redistributive efficiency (e) on both the top and bottom of the expression. In other words, the amount of redistribution done is both positively and negatively related to redistributive efficiency. This is because, when you make public attitudes endogenous to the system, the size of tax-and-transfer expenditure (S) will vary inversely with the efficiency of the system.

4. Understanding the relationship between different properties of welfare states

This mathematical relationship throws light on some of the interactions between the different properties of welfare states discussed in Section 3 of this report. For example, it expresses the fact that redistributive efficiency (e) should be inversely related to the size of tax-and-transfer expenditure (S). This can be seen in Figure 1 which shows that the size of tax-and-transfer systems is inversely proportionate to their degree of targeting.

5. The contribution of redistributive efficiency to the amount of redistribution

As we observed in Section 3 of this report, a key question is what the relationships illustrated here imply for the best strategy to maximise redistribution to the poor. Even if increased targeting has the indirect effect of reducing the size of welfare states through lower popularity, perhaps it is still the best way to increase redistribution to those on low incomes?

In terms of the expression derived above (Equation 3), we can see that the amount of redistribution done (R) is both positively and negatively related to the redistributive efficiency of the system (e), through the two different terms containing e on the right-hand side of the expression.

$$R \propto e \times \left(\frac{1}{e^n} \right) \quad [\text{Equation 3}]$$

But it is still an open question as to which of these terms containing 'e' is more powerful. As we target a welfare system more and more, increasing e, does the contribution of e to *increasing* R (through the first term on the right-hand side of Equation 3) outweigh the contribution of e to *decreasing* R (through the second terms on the right-hand side of Equation 3), or vice versa? We need to know whether the value of the first term on the right-hand side of Equation 3 increases more quickly than the value of the second term decreases – or whether it increases more slowly.

This is the purpose of the power term 'n' in this expression. If $n < 1$, then the effect of targeting welfare – that is, of increasing e – will be to increase the value of the first term on the right-hand side of Equation 3 faster than the value of the second term decreases, thereby increasing the overall value of R – the amount of redistribution done. On the other hand, if $n > 1$ then the effect of increasing e will be to decrease the value of the second term on the right-hand side of Equation 3 faster than the value of the first term increases, thereby decreasing the value of R.

To investigate empirically whether n is greater than or less than 1, we can look at the relationship between targeting and redistribution. Figure 2 in Section 3 looks at the relationship between targeting and redistribution. The relationship here is counterintuitive, but clear: the amount of redistribution *decreases* as tax-and-transfer systems become more targeted. This shows $n > 1$; in other words, any increase in redistribution from increasing the degree of targeting in a tax-and-transfer system is outweighed by the faster rate at which this targeting reduces the size of tax-and-transfer expenditure.

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6. Conclusion

So, to summarise, by making public attitudes endogenous to the modelling of the redistributive dynamics of welfare states, we have derived an expression for the amount of redistribution (R) performed by a tax-and-transfer system in terms of the redistributive efficiency of the system (e).

$$R \propto e \times \left(\frac{1}{e^n} \right) \quad [\text{Equation 3}] \quad \text{where } n > 1$$

It is because $n > 1$ that welfare for the poor becomes poor welfare.



Appendix 2 | Data tables for comparative welfare state analysis

Figure 1: How welfare expenditure varies with degree of targeting, for a group of OECD welfare states from the late 1970s to the late 1990s

| Country and LIS wave | Efficiency | Generosity |
|----------------------|------------|------------|
| Australia WAVE 1 | 71.7 | 7.7 |
| Australia WAVE 2 | 71.5 | 7.86 |
| Australia WAVE 3 | 68.4 | 8.22 |
| Australia WAVE 4 | 70.6 | 10.18 |
| Belgium WAVE 4 | 52.5 | 20.6 |
| Canada WAVE 1 | 56.6 | 6.45 |
| Canada WAVE 2 | 54.3 | 7.67 |
| Canada WAVE 3 | 50.7 | 9.69 |
| Canada WAVE 4 | 52.5 | 10.8 |
| Denmark WAVE 2 | 44.5 | 15.92 |
| Denmark WAVE 3 | 56.3 | 15.13 |
| Finland WAVE 2 | 44.2 | 6.89 |
| Finland WAVE 3 | 40.8 | 7.25 |
| Finland WAVE 4 | 43.5 | 10.48 |
| Germany WAVE 1 | 43.4 | 16.01 |

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| Country and LIS wave | Efficiency | Generosity |
|----------------------|------------|------------|
| Germany WAVE 2 | 47.6 | 17.06 |
| Germany WAVE 3 | 48.2 | 15.02 |
| Germany WAVE 4 | 46.4 | 16.83 |
| Netherlands WAVE 1 | 48 | 15.31 |
| Netherlands WAVE 2 | 48.4 | 16.18 |
| Netherlands WAVE 3 | 47.9 | 13.26 |
| Netherlands WAVE 4 | 50.2 | 11.56 |
| Norway WAVE 1 | 52 | 11.08 |
| Norway WAVE 2 | 54.2 | 10.01 |
| Norway WAVE 3 | 48.5 | 11.43 |
| Norway WAVE 4 | 50.4 | 13.27 |
| Sweden WAVE 1 | 41.6 | 21.01 |
| Sweden WAVE 2 | 45.5 | 19.6 |
| Sweden WAVE 3 | 43.7 | 24.07 |
| Sweden WAVE 4 | 41.1 | 22.53 |
| UK WAVE 1 | 55.8 | 11.46 |
| UK WAVE 2 | 54.9 | 16.15 |
| UK WAVE 3 | 65.7 | 11.41 |
| UK WAVE 4 | 61.8 | 14.05 |
| US WAVE 1 | 52.9 | 7.04 |
| US WAVE 2 | 53.1 | 7.07 |
| US WAVE 3 | 50.6 | 8.11 |
| US WAVE 4 | 51.3 | 7.37 |

| | |
|-------------|--------|
| Correlation | -0.451 |
|-------------|--------|

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Figure 2: How redistribution varies with degree of targeting, for a group of OECD welfare states from the late 1970s to the late 1990s

| Country and LIS wave | Efficiency | Redistribution |
|----------------------|------------|----------------|
| Australia WAVE 1 | 71.7 | 77.97 |
| Australia WAVE 2 | 71.5 | 79.27 |
| Australia WAVE 3 | 68.4 | 78.16 |
| Australia WAVE 4 | 70.6 | 76.17 |
| Belgium WAVE 4 | 52.5 | 93.02 |
| Canada WAVE 1 | 56.6 | 68.61 |
| Canada WAVE 2 | 54.3 | 73.94 |
| Canada WAVE 3 | 50.7 | 77.57 |
| Canada WAVE 4 | 52.5 | 80.54 |
| Denmark WAVE 2 | 44.5 | 85.01 |
| Denmark WAVE 3 | 56.3 | 88.75 |
| Finland WAVE 2 | 44.2 | 87.11 |
| Finland WAVE 3 | 40.8 | 87.06 |
| Finland WAVE 4 | 43.5 | 92.68 |
| Germany WAVE 1 | 43.4 | 93.04 |
| Germany WAVE 2 | 47.6 | 94.10 |
| Germany WAVE 3 | 48.2 | 91.53 |
| Germany WAVE 4 | 46.4 | 89.86 |
| Netherlands WAVE 1 | 48 | 78.95 |
| Netherlands WAVE 2 | 48.4 | 89.91 |
| Netherlands WAVE 3 | 47.9 | 84.22 |
| Netherlands WAVE 4 | 50.2 | 87.61 |
| Norway WAVE 1 | 52 | 89.32 |
| Norway WAVE 2 | 54.2 | 90.64 |

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| Country and LIS wave | Efficiency | Redistribution |
|----------------------|------------|----------------|
| Norway WAVE 3 | 48.5 | 90.38 |
| Norway WAVE 4 | 50.4 | 89.80 |
| Sweden WAVE 1 | 41.6 | 93.28 |
| Sweden WAVE 2 | 45.5 | 91.11 |
| Sweden WAVE 3 | 43.7 | 91.56 |
| Sweden WAVE 4 | 41.1 | 88.60 |
| UK WAVE 1 | 55.8 | 88.75 |
| UK WAVE 2 | 54.9 | 86.95 |
| UK WAVE 3 | 65.7 | 85.71 |
| UK WAVE 4 | 61.8 | 85.78 |
| US WAVE 1 | 52.9 | 59.78 |
| US WAVE 2 | 53.1 | 57.96 |
| US WAVE 3 | 50.6 | 60.21 |
| US WAVE 4 | 51.3 | 62.17 |

| | |
|-------------|--------|
| Correlation | -0.335 |
|-------------|--------|

The Coalition and Universalism

Figure 3: How redistribution varies with welfare expenditure, for a group of OECD welfare states from the late 1970s to the late 1990s

| Country and LIS wave | Generosity | Redistribution |
|----------------------|------------|----------------|
| Australia WAVE 1 | 7.7 | 77.97 |
| Australia WAVE 2 | 7.86 | 79.27 |
| Australia WAVE 3 | 8.22 | 78.16 |
| Australia WAVE 4 | 10.18 | 76.17 |
| Belgium WAVE 4 | 20.6 | 93.02 |
| Canada WAVE 1 | 6.45 | 68.61 |
| Canada WAVE 2 | 7.67 | 73.94 |
| Canada WAVE 3 | 9.69 | 77.57 |
| Canada WAVE 4 | 10.8 | 80.54 |
| Denmark WAVE 2 | 15.92 | 85.01 |
| Denmark WAVE 3 | 15.13 | 88.75 |
| Finland WAVE 2 | 6.89 | 87.11 |
| Finland WAVE 3 | 7.25 | 87.06 |
| Finland WAVE 4 | 10.48 | 92.68 |
| Germany WAVE 1 | 16.01 | 93.04 |
| Germany WAVE 2 | 17.06 | 94.10 |
| Germany WAVE 3 | 15.02 | 91.53 |
| Germany WAVE 4 | 16.83 | 89.86 |
| Netherlands WAVE 1 | 15.31 | 78.95 |
| Netherlands WAVE 2 | 16.18 | 89.91 |
| Netherlands WAVE 3 | 13.26 | 84.22 |
| Netherlands WAVE 4 | 11.56 | 87.61 |
| Norway WAVE 1 | 11.08 | 89.32 |
| Norway WAVE 2 | 10.01 | 90.64 |

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| Country and LIS wave | Generosity | Redistribution |
|----------------------|------------|----------------|
| Norway WAVE 3 | 11.43 | 90.38 |
| Norway WAVE 4 | 13.27 | 89.80 |
| Sweden WAVE 1 | 21.01 | 93.28 |
| Sweden WAVE 2 | 19.6 | 91.11 |
| Sweden WAVE 3 | 24.07 | 91.56 |
| Sweden WAVE 4 | 22.53 | 88.60 |
| UK WAVE 1 | 11.46 | 88.75 |
| UK WAVE 2 | 16.15 | 86.95 |
| UK WAVE 3 | 11.41 | 85.71 |
| UK WAVE 4 | 14.05 | 85.78 |
| US WAVE 1 | 7.04 | 59.78 |
| US WAVE 2 | 7.07 | 57.96 |
| US WAVE 3 | 8.11 | 60.21 |
| US WAVE 4 | 7.37 | 62.17 |

| | |
|-------------|-------|
| Correlation | 0.646 |
|-------------|-------|

Endnotes

1. In this paper, the term ‘universal’ is used to refer to programmes with either universal or wide coverage, that is, in which households on middle and higher incomes are receiving benefits and services as well as those on lower incomes.
2. See for example Goodin and Le Grand 1987. This is not to rule out the possibility that middle-class households might support highly-targeted programmes on altruistic grounds – something we often see where groups are regarded as especially ‘deserving’, such as with benefits for disabled people or elderly pensioners. For a discussion, see: Brook, L. (1998). ‘What drives support for higher public spending’ in Taylor-Gooby, P.F. (ed.) *Choice and public policy*. London: Macmillan; and, van Oorschot, W. (2000) ‘Who should get what and why? On deserving criteria and the conditionality of solidarity among the public’. *Policy and Politics*. Vol. 28. pp 33-48.
3. Includes Australia, Belgium, Canada, Denmark, Finland, Germany, Netherlands, Norway, Sweden, UK and US. Not every country participated in each wave of the LIS, meaning there are 38 rather than 44 data points.
4. Such data exists for the UK welfare state; see, for example, Office for National Statistics, *The effects of taxes and benefits on household income 2009–10*.
5. Specifically, the size of welfare states is calculated as the aggregate amount of positive net transfers as a percentage of total post-tax-and-transfer income.
6. Using a subset of 27 datapoints where data is available in successive waves

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7. Mark Hoban, Hansard, HC vol 517 col 208, 26 October 2010
8. *The Times*, 23 July 1998
9. David Cameron at Prime Minister's Questions, 13 October 2010 (*Hansard*, HC vol 516 col 323); George Osborne, speech to Conservative Party Conference, 4 October 2010
10. See, for example, Office for National Statistics, *The effects of taxes and benefits on household income, 2009/10*, and, Volterra Consulting (2009) *Distribution of Public Finances*, London: 2020 Public Services Trust
11. And while it is true that, analysed at any one moment in time, childless households will be cross-subsidising the child benefit of households with children, analysed across the lifecycle it could equally be said that families have paid for their own child benefit through taxes earlier in their life.
12. Iain Duncan Smith quoted in 'Middle-class families face losing child benefit under biggest shake-up of welfare system in 70 years', *Daily Mail*, 3 October 2010; David Cameron quoted in 'Middle classes told to stop using Sure Start', *Daily Telegraph*, 11 August 2010
13. Quoted in 'Free school meals for all pupils in borough with £34m cuts', *Evening Standard*, 13 April 2011
14. Quoted in 'Poor must accept cuts in benefit, says Clegg', *The Times*, 16 September 2010
15. Haldenby 2009: 5. A good example of this sentiment in a legislative setting can be found in Conservative members' comments on

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the Health in Pregnancy grant in the Parliamentary debate on this topic on 26 October 2010 (*Hansard*, HC vol 517 col 239).

16. For a recent poll showing high support for universal benefits and services of different kinds, see AgeUK 2010.
17. David Cameron in speech on the NHS, 16 May 2011. On pensions, the government has declared that it intends to “reform the state pension for future pensioners so that it provides simple, contributory, flat-rate support” (HM Treasury, Budget 2011).
18. “I like child benefit. I wouldn’t change child benefit. I wouldn’t means test it. I don’t think that’s a good idea” – quoted in Eaton G (2010) ‘The three biggest Cameron U-turns’, *New Statesman* blog, 27 December 2010. Even as recently as the emergency budget in June 2010, George Osborne declared support for “keeping intact this popular universal benefit” (George Osborne, budget statement, 22 June 2010).
19. David Cameron, webchat with *Saga* magazine, 26 March 2010
20. Titmuss, R. M. (1967). ‘Universal and selective social services’. *New Statesman*, 15 September, 1967.
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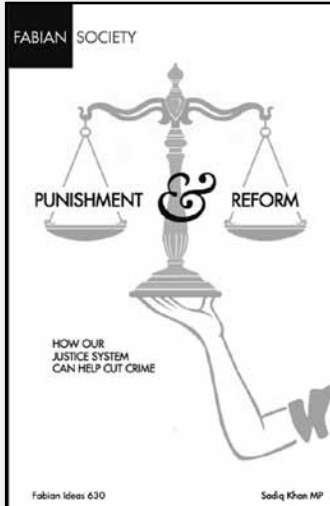
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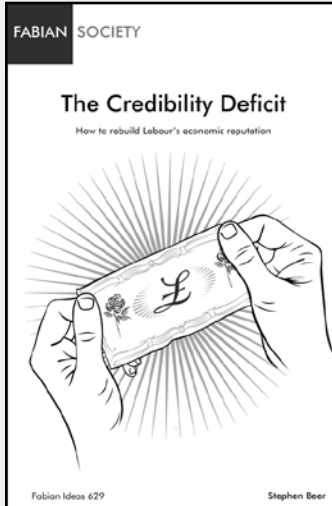


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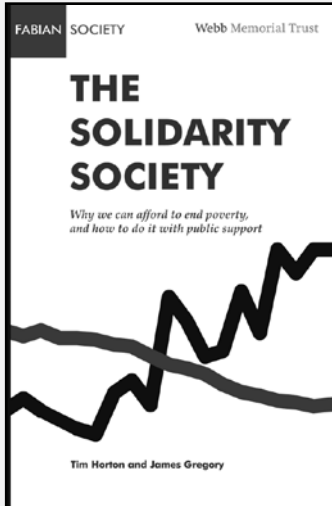
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In 'The Credibility Deficit', Beer argues that Labour also needs to understand economic realities, including the power of the bond markets. Stimulus measures should focus on investment to raise the productive potential of the economy and, at the heart of what we are about, on employment. Labour must support – and learn to love – a reformed City with a refreshed reputation and understanding of the common good.



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The Coalition and Universalism

Cuts, targeting and the future of welfare

Andrew Harrop

incorporating research by Tim Horton

The coalition government's policies to restrict the coverage of universal services and welfare payments have been very controversial, in part because they raise questions about the fundamental nature of the British welfare state. Universalism matters for poverty prevention because it generates majority public support for welfare spending, sustaining generous provision over time and aligning the interests of low, middle and high income groups.

This report analyses data from the 1970s to the 1990s for 11 OECD nations and shows that, counter-intuitively, welfare systems which are tightly targeted to low income groups tend to reduce poverty less. A system's success in poverty reduction is instead related to the overall amount of expenditure. So the inefficiency of universal systems from a poverty-reduction perspective is more than offset by the higher expenditure they typically secure because of their wider public support.

This research forms part of the Fabian Society project 'Fighting Poverty and Inequality in an Age of Affluence', made possible by support from the Webb Memorial Trust.

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