

## SOCIAL POLICY AND CLASS INEQUALITY

### Some notes on welfare state limits

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Whether capitalism is still capitalism—that old dog of a controversy whose very refusal to lie down and die suggests that its object remains no less alive—hangs in large part on the answers to two questions about the state: its role in production and its role in distribution. Of course the two cannot, in the end, be kept apart; they are intertwined because capitalism as a mode of production is also a mode of exploitation. But my concern here will be, in essence, only with the second question: with the distributional impact of government social policy, the effects of the "welfare state" on class inequality. I have misgivings about treading on ground much of which is already well-trodden. But there are patches of that ground which still look rather desolate—in between the large and flat acres of practical description of welfare provisions; the smaller thoughwidening and bumpy strips of general theorising about the philosophical premises, formative socio-political contexts and ideological orientations of social policy; and the tracks marked out by cartographers of poverty. There are, in particular, questions left open about the limits of state action as a means to modify the patterns of exploitation—of "differential reward", to use another vocabulary—set by the property and market mechanisms of a capitalist economy.

To some pragmatic social-democratic ways of thought, perhaps, the notion of such limits may appear an elusive abstraction: the road may be seen as open to a progressive intermingling of distribution according to need with acquisition according to ownership and market strength, through a succession of reforms in which at no particular and identifiable point will the interests behind the latter criteria either decisively dictate a stop or be equally decisively set aside. Both right and left, however, realistically acknowledge that there must be limits: the right when they claim to see before them already a creeping erosion of profit and pay incentives through misguided state benevolence; the left when they characterise the same benevolence as a set of only marginal concessions, designed to sustain the long-run viability of private capital against its self-engendered exposure to the twin risks of inefficiency and popular dis-

loyalty. But if there are, and must be, limits beyond which public welfare provision would wreck the engines of a capitalist economy, whereabouts do they lie? If the amelioration embodied in state social policy involves only marginal concessions, what are the margins implied; and what hypothetical transformations of policy would take it beyond them?

I have no magic formula to propose in reply. In that sense I shall end, as I start, with question marks. But I hope nevertheless to be able to do something to clarify the issues against which these stand: to explore the ways in which state policy does and does not modify class inequality; to identify, if sketchily, the points on which it fits within, and also those on which it may reach out across, the distributional principles of a capitalist economy. To do that I must begin by setting out those principles. There are two.

The first principle is that property gives its owner a recognised claim to a share in resource output. That it also, with well-known exceptions, gives owners a claim to share directly or indirectly in resource management is crucially important in general, but relevant here only for one reason. The rationale for the right of owners to consume merely by virtue of their ownership is that the return to capital constitutes the *primus motor* of economic enterprise: so, if private profit is to drive the wheels of production, it and the property from which it derives must constitute a means of private consumption. There are significant corollaries to the principle. First, the right of owners to a share of societal income is unconditional: it stands with no questions asked about either their "contribution" or their "need." Second, therefore, it is in inherent contradiction to the criteria which otherwise govern distribution, for these require of income recipients either a contribution, through work; or some demonstration of need, whether directly or through membership of a population category recognised as in need. Third, because property rights invariably include some right to transmit ownership to others by inheritance (or gift), they legally entrench a contradiction also to the notion—familiar as a diffusely formulated ideal to which tribute is paid in contemporary capitalist societies—that the individual's place in the socio-economic order should reflect his/her own "merits" without avoidable influence of his/her circumstances of origin. When sociologists proclaim a triumph of "achievement" over "ascription" as the predominant criterion by which, in principle, individuals are placed in the hierarchies of modern western societies, they rarely note the blatant incompatibility of that, not just with hard social facts tenaciously resistant to policy, but with the law's endorsement of inheritance as a right attached to property. Fourth, because property which yields substantial income—property in productive assets—is highly concentrated, only a small minority enjoy the prime benefits of the property principle; but their privilege contributes sizeably to the overall inequality of distribution.

The second principle is, of course, that the majority who do not own substantial income-yielding property must rely for their livelihood in the first instance on the labour market: they have either to hire out their own labour or to depend on others—usually related members of their own household—who do the same. There are again several significant features associated with this principle. First, labour market earnings are governed largely by capital's considerations of long-run profit optimisation. Except when a category of labour can maintain control over its own sectional market, collective labour organisation by itself seems to have had little impact on the broad pattern of income inequalities; more on the extent to which workers can exercise some control over their jobs in the everyday work situation. Moreover, even though the state is now commonly the largest single employer, terms of employment in the public sector have not been—and arguably cannot be—detached to any considerable degree from those in the private sector; and government attempts to manipulate labour market earnings through its responsibility for payments to one employee in four (to cite the British case) have been directed to holding back wage pressures rather than to boosting low earnings and cutting down high earnings on any more, at least, than an occasional basis. Second, different kinds of labour power are in effect hired out in different markets on very different terms: in some cases at high premiums because the earner-group in question—an established "profession", for example, occasionally a group of skilled manual craftsmen or technicians—have achieved collective control over their own corner of the labour market, notably over admission to the corner. Third, top management in private enterprise occupy a position on which much confusion has centred. Nominally "labour", in so far as their incomes derive from salaries, honoraria and perks in return for the "jobs" they do, in fact they acquire their "earnings" from their command over capital, in a manner akin to profit extraction. That, for one thing, makes it difficult to assess the significance of such shift as has occurred in the statistically recorded distribution of aggregate personal income between property income and employment income. For another, the generally very high—though characteristically also individually variant—levels of emolument for directors and other top managers set correspondingly high standards both for managerial pay on the rungs a little further down the control hierarchies of private business and, at one remove, for management salaries in the public sector. Fourth, for all these reasons, the range of labour market earnings—especially by nominal definitions of "labour", but also by more real ones—is very wide. Superimposed on the dichotomous inequality between property income and employment income, therefore, there is a very visible pattern of multiple inequalities which both generates conflicts of immediate interest among different categories of labour and veils the conceptual simplicity of the two contrasting principles of capitalist income distribution: acquisition by right of ownership and

allocation according to labour market "contribution." Fifth, just because the majority live by the second principle, while the minority who live by the first are not readily visible, the common dependency on the labour market as a fact of life is easily translated into popular acceptance of an "ethic of work", notwithstanding the immunity from that ethic conferred by property on its owners.

Two points need to be added to this schematic account of the principles of distribution implicit in a capitalist economy. One, a point of elaboration, is that for all their mutual contradiction the two principles together mean that "incentives" are institutionalised in monetary form. There are, of course, subsidiary institutionalised incentives in non-monetary form; but neither officially awarded "honours" nor diffusely recognised patterns of "social status" operate in general as alternatives to the hierarchy of monetary rewards: they follow with financial advantage, rather than compensate for its absence. The other, a point of qualification, is that—even apart from "welfare state" interventions—the money incomes set by the workings of property and labour markets are not the sole, though they are the prime, determinants of consumption power. Effective access to the means of livelihood is influenced also by the workings of consumer markets and by differential capacity to obtain credit. Here again, however, inequalities of access in consumer markets, and to credit, generally favour the wealthy and impede the poor: their effect is to reinforce the initial inequalities of income.

State provision—direct provision through benefits in cash and kind, indirect provision in so far as taxation and a multitude of other government activities modify the impact of property and market mechanisms—adds a third source of "livelihood" to those constituted by ownership and labour hire. Do then the distributional principles and effects of state provision clash with those associated with ownership and labour hire, or merely complement them without subverting them?

## II

Because they are in part inexplicit, the distributional principles of state provision cannot be fully identified without reference to effects. So it makes some sense to start with effects and defer consideration of principles: to take results before objectives, roundabout though that may seem. In fact, some recent information makes it possible to get a little closer to an assessment of the impact of "welfare state" measures on real income distribution, in the case of Britain, than was feasible earlier. Using these data, for 1976, we can take off from estimates of the spread of incomes for households of different composition, before the state intervenes to extract taxes and allocate benefits; and go on to trace the estimated effects, first of taxes and then of benefits, on households at

different levels of the "original income" hierarchies.'

Of course the data—primarily from sample survey information about household incomes and expenditure—are deficient for the purpose. Money incomes before taxes and benefits cannot be equated with incomes as they would be in the hypothetical absence of any state activity. Even apart from the facts of public sector employment, whatever their significance, public policy may bend the contours of income distribution by means other than tax deduction and benefit bestowal—though the apparent relative stability of broad patterns of overall and employment income inequality, in this and many other countries since the 1950s, suggests that the net effects of increased state activity during that period have not been to shift the contours substantially, or much more than to neutralise possibly countervailing tendencies. Reported incomes may differ from true incomes; and under-counting in the upper reaches of the hierarchy could compress the recorded range of inequality. Taxes and benefits, in kind as well as cash, are brought into the estimates only to the extent that assessment of their allocation among individual households was judged feasible by the statisticians responsible for the exercise—the taxes so taken into account making up 60 per cent of government revenue in 1976, the benefits in the balance sheet 44 per cent of government expenditure. Their allocation even within those limits, moreover, required assumptions in some respects open to question—in the case of public health and education services, for example, an assumption of equal effective use among all individuals of a particular category (of given age and sex, or in a given type of school or college) which is bound to be significantly at odds with a reality in which privilege and disadvantage are known to be cumulative. Omission and distortion on these scores are inevitable. For all that, this material takes us closer than before to a picture of how far the "welfare state" reshapes inequalities of livelihood, and of the mechanisms by which it does so—and does not.

Inequalities are not reshaped by taxation. This is stale news to those familiar with relevant research over the last fifteen years or so. But it is essential to hammer the point home; and the new information available does so most emphatically. In the case of households comprising two adults and one to four children, for example, taxes of all allocable kinds (including national insurance contributions) took away 36 per cent from the "original incomes" of the initially richest ten per cent in 1976; and much the same fraction (or just a little more) from all but the poorest ten per cent, whose total tax bill—direct and indirect—came to 44 per cent of original income.<sup>2</sup> The pattern was similar, but carried still more of a sting for the very poor, among "non-retired" households of other kinds: commonly more or less flat rates of aggregate taxation (around 40 per cent of original income) from the rich down to the near-poor, with the rate rising at the very bottom of the scale—for the poorest ten per cent—to 63

per cent in the case of poor two-adult households, and to totals actually well in excess of original income (income before receipt of state cash benefits) in the case of the very poor among single non-retired people living on their own and a heterogeneous category of "other" households. Regression in the incidence of tax relative to original income was still more evident among "retired" households, for whom the rates rose steadily step by step down the scale from the top, to reach figures well above the negligible initial incomes of the many households in these categories more or less totally dependent on state support.

The mechanics behind these patterns of flat-to-regressive rates of total taxation may also be familiar; but they can bear repetition, though elaboration of detail is unnecessary here. Direct taxes are progressive: they take proportionately more from the rich than the poor. Even so, however, their progression is confined in large part to the range from poverty to median income. Rates of direct taxation rise most up the steps which separate the gradations of working class low income in or out of employment from the more solid incomes of the "middle mass" derived, for example, from one man's wage packet of skilled manual size or from two smaller wage packets in conjunction. But above that level, increments in the effective rate of direct tax taper off: among both households with children and "non-retired" childless households of two adults in 1976, for example, the richest ten per cent had to pay out only 3-5 per cent more of their original incomes in direct tax than did households of similar composition in the fifth decile group from the bottom, with incomes little more than two-fifths those of the richest. Indirect taxes—moreover—and here's the main rub—are consistently regressive. Add the two together—direct plus indirect—and the rich are then seen to pay no larger a share of their original incomes into the state cash box than others; and the very poor in fact to pay more *pro rata*—in some cases, very much more.

It makes full sense in the present context to calculate rates of taxation as I have just done—in relation to "*original*" incomes. For my purpose is to trace through the steps by which income distribution in its "pristine" shape—in abstraction from the activities of public authorities to raise money in taxes and in turn disburse much of it as benefits—is subsequently recast by precisely these state activities. The impact on initial income distribution of what is logically the first step in those activities—the raising of *revenue*—proves then to be nil or worse: to maintain the pattern of inequality as it was, and indeed somewhat to accentuate it. But there may be objections raised to this mode of calculation as unrealistic. Taxes, it may be said, are in fact extracted from *gross* incomes which include cash benefits from the state. To describe the poorest tenth of households with children as taxed at a rate of 44 per cent—still more the poorest tenth of some other types of household as taxed at rates well over 100 per cent—is patently misleading (so the argument may run), when these people can pay so much in

tax only because their very initial poverty leads to relatively substantial augmentation of their original incomes by cash from the state: calculated in relation to their "real" money incomes, including cash benefits, their tax rates will be a good deal lower. There is obvious point to the objection. But it is valid only for a purpose different from mine: to describe the incidence of taxation, taken by itself; not, as is my concern here, to identify its contribution to a process of income redistribution by state action in which logically it is the "first" step, while the "second" step is state allocation of benefits from the money raised by taxation.<sup>3</sup>

Let me nevertheless go along with the objection, briefly, and try to re-describe the incidence of taxation as it appears when calculated in relation to "gross" money incomes, in which cash benefits from the state are added to "original" incomes. The 1976 material used before will not serve for this purpose: it does not set out the relevant household hierarchies, from rich to poor, by reference to gross incomes. But by minor adjustment of some other information—similarly originating in household expenditure survey data—it is possible to do the exercise demanded for two broad types of household in the preceding year, 1975.<sup>4</sup> The results, of course, look somewhat different; but not markedly so. In the case of households with one to three children, rates of aggregate tax—direct and indirect together—varied hardly at all relative to gross money income: 38 per cent for the top ten per cent, 37 per cent for the bottom ten per cent, 35-36 per cent for the decile groups between the richest and the poorest. There was more variation, and some progression, in the case of the other group for which the analysis can be made: households comprising one or more adults only, but excluding those mainly dependent on state pensions. Here tax rates relative to gross income ranged from 40 per cent at the top to 25 per cent at the bottom. In fact, however, the progression which this indicates was almost entirely confined to the lower rungs of the ladder. From the quarter of money incomes paid out in direct and indirect taxes by the poorest ten per cent (no negligible fraction itself for people so hard up), the rate rose stepwise to over one third (36 per cent) for the fourth decile group up the scale; but beyond that point—for the 60 per cent of these households with better incomes—the further increments up to the top decile group's rate of 40 per cent were self-evidently very small. So, for the majority of non-pensioner households without children—whether quite modestly placed or very wealthy—the effective incidence of tax relative to money income showed essentially the same pattern as for all households with children: an almost flat rate of some 35-40 per cent, varying only minimally if at all according to financial capacity.

In short, even a descriptive mode of calculation favourable to the case provides no more than the flimsiest support for the common view that taxes bear proportionately heaviest on the strongest shoulders. And, to revert to the earlier mode of calculation relevant to my analytical purpose, far from

diminishing initial income inequality the "welfare state's" tax-raising activities actually add to it. It follows that, in so far as state intervention nevertheless makes for some reduction of inequality in the end, this can only be by means of the second step in the process: through a pattern of benefit distribution sufficiently progressive to outweigh the net regression characteristic of tax incidence. This is indeed what happens, to a degree. Take the case of households with one or more children in 1976. All of these, to repeat, eventually lost about two fifths of their original incomes in tax payments of one kind and another, the poorest rather more and the very rich marginally least. But all in turn gained from state benefits in cash and kind; and this countervailing boost to original incomes was at rates which were high at the bottom of the scale and successively tapered off up its steps: amounting to some 130 per cent of original income for the poorest tenth but only 11 per cent for the richest tenth. On balance, most households lost more on the swings of taxation than they gained on the roundabouts of state benefits; and this follows from the point, made earlier, that a higher proportion of government revenue than of government expenditure is incorporated into the estimates as capable of allocation to individual households. But net swings-versus-roundabout losses were proportionately greatest for the richest; while the very poorest actually gained on balance, and quite substantially so measured against their initial incomes.

So, in the event, there was redistribution from top to bottom, notwithstanding the tendency of taxation by itself in the opposite direction. Sheer logic of arithmetic, indeed, would make it difficult to conceive of any other outcome. Just because the poor start with little or nothing, the relative value of the benefits they obtain is very high measured against original incomes; and the indirect taxes which make up the bulk of their tax bills, while charged at high effective rates, are still limited by the low purchasing power of the poor even when cash benefits are added to their negligible initial incomes. The wealthy, by contrast, receive only small sums in *cash* benefit; and although in absolute terms they get roughly as much as the poor—sometimes more—out of state benefits in *kind*, their high initial incomes receive only a relatively small boost on that score. That boost, naturally enough, is more than outweighed by their payments of tax which, though at favourable rates in proportionate terms, involve substantial sums of money just because they are extracted from very substantial incomes.

The extent of this process of redistribution, its incidence and its limits, need more precise statement. That is the purpose of the table below, which summarises the estimated outcome of "welfare state intervention", in 1976, for households of varying type according to their original incomes. Figures above 100 indicate net gains—benefit values exceeded tax payments—and figures below 100 conversely net losses. It is clear that there was a transfer

The combined impact of taxation and state benefits on households of different type at different levels of original income in **1976**: average final income expressed as a percentage of average original income.

<i>Decile of original income within each household</i>	<i>Households of following type, comprising:</i>					
	<i>Non-retired</i>		<i>2 adults and 1-4 children</i>	<i>Other retired</i>	<i>Retired</i>	
	<i>1 adult</i>	<i>2 adults</i>			<i>1 adult</i>	<i>2 adults</i>
Highest decile	56	62	75	70	107	86
9th decile	62	64	79	73	154	138
8th decile	60	65	81	75	231	186
7th decile	67	65	83	77	329	245
6th decile	67	68	86	81	469	336
5th decile	72	70	87	89	792	437
4th decile	89	77	92	101		572
3rd decile	120	86	97	116	788	
2nd decile	195	107	103	161		2476
Lowest decile	1086	252	188	789		
All households of stated type	75	73	87	88	303	221
Percentage of all households accounted for by each type	9	23	26	21	12	9

**Explanatory notes:**

- (i) Within each household type, households are ranked in ten-per-cent bands (deciles) according to their original incomes: highest decile = initially richest 10 per cent, lowest decile = initially poorest 10 per cent.
- (ii) "Retired" households are those in which the combined income of members aged 60 years plus, who described themselves as retired or unoccupied, accounted for at least half the gross household income.
- (iii) "Original" income = income before any payment of tax and any receipt of benefit.  
"Final" income = income after deduction of all allocated taxes (direct and indirect) and after addition of all state benefits in cash and of allocated state benefits in kind (including subsidies) at estimated money value. The figures shown are to be read thus (for example): among "non-retired" households of one adult, the initially richest ten per cent ended up with estimated "final" incomes amounting to 56 per cent of the "original" incomes.

**Source:** The calculations were made from the data in appendix table 3 of the source referred to in note 1 to the text.

of resources within each income hierarchy, downwards to those initially worst off: among all household types, not just among those with children singled out for attention above as an example. It is also clear that, household type for type, the pattern was fairly consistently progressive: where there were net gains, they were proportionately larger the poorer the households in question according to original income; where there were net losses, they increased in proportionate magnitude more or less step by step up the scale of initial income.

That said, however, there are three mutually connected points to be made in major qualification. First, net gains of substance were confined to households of two kinds: to "retired" households; and, among all other households, to the very poor only (the lowest, sometimes the two lowest, decile groups). Second, and in elaboration of that, there were very substantial transfers of resources "horizontally" between household types. "Retired" households registered net gains at every level of original income except the very top. Households of every other type registered net losses *en bloc*—proportionately heaviest in the case of "non-retired" households of one or two adults—with only the poor and near-poor here exempt from contributing to a flow of funds moving on balance towards the old.

Third, and not least, the progression in the contributions of the "non-retired" to the flow showed a pattern somewhat akin to that of progression in direct tax: fairly steep increases up to around median income level, smaller increases in the higher reaches of original income. Take the case of "non-retired" households of two adults: from the cut-off point turning gains ~~into~~ losses between second and third lowest deciles, proportionate net losses rose sharply to about **30** per cent for the fifth and sixth deciles, but by only a small number of further points (to **38** per cent) all the way up the rest of the scale. The pattern was similar for "non-retired" households of one adult, though their wealthiest decile group did sustain a noticeable further loss by comparison with the next wealthiest. Among households with children—overall smaller contributors to the flow of funds—net losses rose to nearly **15** per cent up the four steps from cut-off point to sixth decile, but increased by only another **11** per cent up the remaining four steps to the top. In consequence, to pursue this last example, families with initial annual incomes of around **£4,000** (then equivalent to a well-paid male manual worker's earnings, only a fifth of male manual workers having more before tax) lost almost **15** per cent of that on the swings and roundabouts of "welfare state" activity; families with initial incomes over twice as high (more than **£9,000**, in the top decile) lost only another **10** or **11** per cent more. So, too, among two-adult "non-retired" households: roundabout **30** per cent net losses for those with the equivalent of good manual-work incomes; not even **10** per cent more by way of net loss for those at the top of the scale, in this case

with average incomes of nearly £10,000.

In summary, the picture which emerges from the new and more comprehensive material drawn on here is in sharper focus than the sketches available from earlier information; but it is not radically different. The massive and complex series of government operations which enter into these balance sheets produce some significant redistribution of effective income. As already suggested by other data from the past fifteen years or so, however—and in diametrical opposition to fond conventional belief—taxation by itself makes only a negative contribution to that process. The point stands out starkly: when indirect are added to direct taxes, they cut down the incomes generated by property and labour market mechanisms by much the same share (around 40 per cent in 1976) at all decile-levels—except among the very poor, who lose more by the same measure. Taxation plays a part in eventual redistribution to the opposite effect only because it provides the funds from which benefits are paid; and because the progressive pattern of benefit allocation outweighs the regressive pattern of tax extraction.

Much of the positive redistribution which does occur in the end is "horizontal." It involves transfers between households of different composition, in effect between people at different stages of life, irrespective of place in the economic hierarchy: transfers especially from childless adults of working age; to a lesser extent from families with children, because children attract countervailing benefits in cash and not least in kind; to elderly people who have reached retirement. None of that "horizontal" redistribution on its own alters aggregate inequality between classes. Detached from any concomitant "vertical" redistribution, it would constitute only a massive system of infra-class collective insurance: workers' welfare funded entirely from the wage packets of workers in active employment. Even so, to the extent that the "welfare state" is just that, it is still significant for the detailed configuration of class inequality. State provision of "age-directed" benefits (as of unemployment and sickness benefit) has modified the character of the "proletarian condition", because it has helped to reduce those fluctuations of life cycle experience which have traditionally exposed people of the wage earning class to a special risk of poverty in childhood, parenthood and old age (as also in unemployment and in sickness).

In any case, the "welfare state" is not exclusively such a system of state-sponsored self-protection for the working class. Coupled with extensive "horizontal" redistribution, there is also "vertical" redistribution to a degree, and within limits, more clearly identifiable from these than from earlier estimates. Ordinary wage earning households, except those on very low incomes, certainly contribute substantially to the "welfare state"; and it is striking that the progression in net contributions—in the balance of taxes paid over benefits received, as these have been allocated and valued in

the accounts for 1976—tapers down rather than steps up once the level of income equivalent to a well-paid male manual worker's earnings is reached. Nevertheless, slower though it becomes, there is some continued progression above that point. Not because they put more into the state kitty relative to the high incomes with which they start, but because they take less out by the same measure, the rich do in effect contribute proportionately more than others to the "welfare state." It would take a taxation system of a steeply—not, as it is, of a marginally—regressive character to save the rich from that. The end result is, as the table below indicates, to raise the real incomes of the poor especially by cutting the real incomes of the rich. In the case of all household types in 1976, the initially wealthiest fifth still had around 30 per cent of total real income in their hands in the end; but even disregarding the special case of the retired, this was some 4.9 percentage points below their share in total income at the outset.

The impact of "welfare state" intervention on the initially rich and the initially poor, 1976.

<i>Highest and lowest quintile groups according to original income</i>	<i>Households of following type, comprising:</i>											
	<i>Nonretired</i>				<i>2 adults 1-4 children</i>		<i>Other except retired</i>		<i>Retired</i>			
	<i>1 adult</i>		<i>2 adults</i>		<i>O</i>	<i>F</i>	<i>O</i>	<i>F</i>	<i>1 adult</i>		<i>2 adults</i>	
	<i>O</i>	<i>F</i>	<i>O</i>	<i>F</i>					<i>O</i>	<i>F</i>	<i>O</i>	<i>F</i>
Initially richest 20%	42	33	37	32	34	30	38	31	68	27	63	29
Initially poorest 20%	3	14	7	13	9	14	4	12	*		#	

Q = "Original" income, F = "Final" income.

\* Figures cannot be presented for the initially poorest 20% among the "retired", because incomes here were so low to start with that calculations only for the poorest 40% and 30% respectively were practicable. In the case of one-adult "retired" households, the initially poorest 40% received 1% of aggregate original income for this category of households as a whole, but 36% of aggregate final income for the category. In the case of two-adult "retired" households, the corresponding figures for the initially poorest 30% were 2% "before" and 25% "after." This striking compression of initially highly unequal income hierarchies among the retired reflects, of course, the general net flow of state funds to the elderly, the majority of whom (retired from manual and lower rung non-manual jobs) have little if any means of livelihood other than support from the state.

For other notes, see text and also previous table.

Overall post-welfare-state-activity income distribution is not in fact compressed as much by comparison with original property- and market-generated income distribution as this might suggest. Some of the initially

richest and poorest households are replaced in those positions by others, precisely in consequence of the complex pattern of transfer payments which occurs. While the data used here do not allow a direct estimate of final income distribution by itself, without reference to original incomes, extrapolation of calculations from similar raw material for the previous year makes a reasonable indirect estimate possible.<sup>5</sup> Taking all households together, irrespective of type, the initially richest fifth in 1976 had 44 per cent of all income in their hands before taxes and benefits. The share of the same households in total income after taxes and benefits was down to 34 per cent. But as the result was also to remove some of these from the category of "richest fifth", with others taking their place, the share in final income of those households now constituting the richest fifth was about 38 per cent. This still indicates a compression of the range of inequality by comparison with the original "top quintile share" of 44 per cent; but not as much as suggested by figures of the kind shown above, which trace only what happens in consequence of "welfare state" activity to those who *start* at the top and the bottom of the range. For all that—and for all the reservations which are necessary about the accuracy of the basic figures both of "original" and "final" income—public policy clearly does to some degree mitigate class inequality.

### III

So much, in a fairly crude quantitative manner, for "effects"; now to "principles." My purpose here is to take a step towards filling in what seems to be a gap in the literature on social policy: between detailed practical description of welfare measures on the one hand, very broad and general summary characterisations of alternative welfare ideologies on the other.<sup>6</sup> I shall try to identify, somewhat in catalogue form, the various kinds of objective with a bearing on class inequality which appear to be represented, in this or that combination, in the social policy packages of Britain and—to go by an occasional fleeting glance—some other contemporary western countries. By "objectives" I mean both aims which have found explicit expression, and also such strands of implicit purpose as can be read off from the character and operative mode of particular policy measures. These different "objectives" may each be said to incorporate at least an implicit conception of a kind, or degree, of equality which it is appropriate for policy to pursue—if only by inference from the kind, or degree, of inequality which policy in this or that form seeks to reduce.

There are significant limits to those various conceptions of "acceptable" equality embodied in present-day social policy. To make such limits stand out the more clearly, it may be as well first to sketch a conception of equality which goes well beyond them all: a set of hypothetical objectives nowhere represented in the reality of current social policy, by which the

more readily to identify the points where those which are represented stop short. That imaginary alternative conception of equality I call *equality of condition*. I mean by it a state of affairs in which life circumstances and opportunities would be more or less the same for all, in so far as means to that end could be found; and with avoidable deviations only to the extent that such deviations could be specifically shown as required for the achievement of other specified ends of policy explicitly awarded higher priority. Inequalities would not be ruled out. But the burden of proof—for their justification as either inescapable or instrumentally necessary—would rest on public policy: the initial presumption would be against them; above all against cumulative inequality as distinct from discrete and particular inequalities. With that as a counterfoil, let me try to set out such class-relevant objectives (and associated more restricted conceptions of acceptable equality) which appear to figure in some mixture or other in actual current social policy. There are, as I see them, five.

#### *General minimum*

The objective to guarantee all citizens a minimum livelihood seems now to be an element in the welfare packages of all western countries. In Britain, as in a number of other places, there are two basic forms to this ostensible guarantee. In the first form certain contingencies in life—e.g., retirement in old age, illness, "involuntary" unemployment—are intended to give entitlement without individual demonstration of lack of alternative means. Even so, and significantly, entitlement requires demonstration of a record of "contributions" normally made in the course of previous employment. The second form was originally conceived only as subsidiary, "last resort" provision; but it has come to verge on "common resort" provision, its role as such inhibited only by inherent disincentives to application on the part of those nominally eligible. Here entitlement requires demonstration of need on the initiative of the needy—though one means sought to give more substance to the "guarantee" in this second form has sometimes (e.g., in Sweden) been to impose a formal obligation on the authorities to seek out potential applicants; another, to shift the balance within official assessment of "need" from exercise of discretion towards more application of standard and publicised rules.

There is no principled definition of the "minimum" to be guaranteed; and it is liable to vary both between, and under different sub-schemes within, the two forms of guarantee. But there are three implicit understandings associated with it, which give some body to the term "minimum." First, the level of fall-back livelihood offered is officially conceived as the minimum acceptable—to a generalised "public", if not to the poor themselves. Second, while precisely for this reason it can be and normally is stepped up from time to time—indeed, may be index-linked—it is set at all times well below the level of livelihood associated with current average

labour market earnings. Third—in application especially to categories of recipient who otherwise arguably might be deterred from work, but by extension to others as well—it is intended to be so set as rarely, if ever, to equal the current level of low grade wage earnings.

In so far as any conception of equality as a goal of policy can be said to enter into provision of this kind—and such claims have been made for it<sup>7</sup>—it is that all citizens participate as "subscribers" and potential "beneficiaries" in a set of schemes guaranteeing to all a relatively small livelihood in need. In fact, of course, the risks of becoming dependent on the "minimum guarantee" continue to be highly unequal. Nevertheless, the institution of minimum provision across the board has modified class inequality to some degree. First, there is of arithmetical necessity at least a modest redistributive effect, of which the preceding statistical analysis—though it concerned a welfare package with other ingredients as well—is a reminder. Some benefits (e.g., for unemployment, and those which are means-tested) will be concentrated on people in the lower reaches of the economic scale; others (e.g., basic pensions) will be spread more or less equally. But benefits of both kinds will add proportionately more, and—unless taxation is steeply regressive—counter taxes proportionately more, at low than at high levels of initial income. Second, even apart from such redistribution between classes, the large-scale transfers of resources involved "infra-class"—from workers in active employment to those unemployed, sick and old—have played a part in blunting the sharper edges of fluctuations in circumstances otherwise characteristic of wage-earning life. To that extent, "minimum guarantee" has helped to make the proletarian condition less distinctive than it was.

These, however, are hardly major modifications of class inequality. "Vertical" redistribution is kept to limited dimensions by heavy reliance on simultaneous "horizontal" redistribution (for which a prime means is taxation operating in overall effect on a near-flat-rate basis). And while some of the traditional uncertainties of working class life have been reduced, some new uncertainties have been added through the complexities facing claimants who wish to press their "welfare rights." These restrictions on class impact, incidentally, are in no way peculiar to Britain. Nor is the central point that the principles associated with minimum provision are, at a general level, in full accord with the basic distributive principles of a capitalist economy. They endorse the "work ethic", and the emphasis on monetary incentives, in three ways: by qualifying the "guarantee" through potential exclusion of the "work-shy" from full eligibility;<sup>8</sup> more generally, by making "contributions" during employment a condition of benefit without test of means; and by adjusting the "minimum" to the floor of labour market earnings.

This is not to say that "minimum guarantee" policy is safe against attack on the grounds that, at its margins, it may nevertheless subvert the

operating mechanisms of a capitalist economy. However evenly spread in fact, taxation on any considerable scale is liable to be seen as a threat to profit and to pay incentives. More specifically, once provision for a minimum livelihood is introduced, it is difficult consistently to ensure a gap between it and the floor of labour market earnings. In all their wide range, the latter pay no regard to variations in household circumstances—to the number of dependent children, for example. But even the most niggardly conception of "need" incorporated in schemes of minimum provision is bound to do so. So in practice, in particular cases, the state's offer of livelihood may be at a level marginally exceeding a low wage; or it may be believed to be at such a level, even if it is not. The recurrence of socio-political tension on this score—of outcries against "scrounging"<sup>o</sup>—is familiar; and the defensive character of the common "pro-welfare" response (that there is little if any real overlap) itself underlines the labour market orientation implicit in policy. In part from the perennial nature of this clash between considerations of "need" versus "work ethic", and from the pressures imposed by the latter considerations to keep any general minimum low, have come proposals and measures so to differentiate state provision that—without abandonment of monetary "work incentives"<sup>m</sup>—not all potential recipients are held down to a level dictated by the lowest wage earnings of a strictly inhumane labour market.<sup>u</sup>

### *Equality of opportunity*

To provide for "equality of opportunity"<sup>o</sup>—or for means to reduce barriers to it—is now, like provision for minimum livelihood in some version or other, a basic and explicit objective of social policy, probably throughout the western world. Indeed, some welfare packages may go little beyond these twin aims—that, for example, of the United States. The notion of equal opportunity prescribes a removal (more weakly, a diminution) of "accidental" impediments to perfect competition among individuals for unequally rewarded places in the socio-economic structure. Success and failure in that competition, so it is postulated, should depend only on inherent individual "capacity" and "merit." The "accidental" impediments to be removed (or diminished) are those which stem—according to varying perceptions incorporated into policy—from socio-economic circumstances of birth and upbringing; from stigmatic "social labelling"; from territorial barriers and barriers to information. The notion prescribes, in the first instance, free mobility of individuals—economically, culturally, geographically. It also prescribes free access in consumer markets: the removal (or reduction), for example, of differentials in access to housing unrelated to monetary purchasing power.

This objective is most clearly represented in the formal gearing of public educational systems to "equal" selection for unequal destinations. But it is a mainstrand of purpose also in legislation—generally more

recent—to remove discrimination by colour and sex; in "poverty" programmes developed in the United States from the 1960s, directed in considerable part to releasing children and young people from inherited poverty (whether the "trap" from which they are to be freed is described primarily in cultural terms or by reference to cumulative material disadvantage); in "priority area" policies in Britain, similarly in part justified as means by which to break a "cycle of deprivation"; and again, though with less trumpet and flourish, in provision for mobility allowances, re-training and the like.

Some of the support which measures of this kind have attracted has, of course, had other ends in view besides "equality of opportunity"; ends reflecting broader conceptions of equality. The case for eradication of discrimination by colour and sex, for example, rests also on a demand for "equality of respect": on rejection of the elementary outrage to human dignity constituted by differential treatment of labelled categories of people irrespective of their individual qualities. Some proponents of educational reform designed in part to widen opportunities, again, have been inspired additionally by a concern to create foundations for a "common culture"; or, through increasing the supply of qualified labour, to diminish pay differentials between skilled and other work—thus to take a small step or two towards diminishing inequalities of condition as well as opportunity. None of these further aims, however, is in principled conflict with the rules of distributive justice implicit in a capitalist economy—though they are in conflict with a variety of entrenched particular interests, whose salience makes for a reality of imperfect competition very different from the model of perfect competition. The energy to drive the engines of public policy on these matters, moreover—to add practical political weight to minority pressures—has come primarily from the concern to provide "equal opportunity for equal talent" *tout court*. That concern—on grounds both of efficiency and of a notion of equity to which lip service has long been paid—is in no way antagonistic to the nominal rules of capitalist economic enterprise. Though it is new for the state to take major initiatives to that end on the scale now common, it is neither new nor a challenge to capitalist principle to seek to enhance circulation of "human resources."

So it may seem, at least; but only if the goal of equal opportunity is not pressed too hard. For even at the level of abstract general rules, it clashes—because capitalism's general rules are internally contradictory—with the right of inheritance attached to property in law. In hard fact, moreover, it clashes with the inescapable realities of class division. Whatever the law, socio-economic advantage and disadvantage tend to be transmitted from parents to children, although there is certainly no pattern of rigid inheritance. More significantly still, the privileged—and there are successive levels of subsidiary and minor privilege below the concentrated privilege

at the economy's top—have a natural interest in protecting their own scope for such transmission. They will not now typically oppose the aim of equal opportunity, expressed as an ideal; but their resistance adds substantially to the inertia which dilutes the means adopted for its pursuit. That inertia is one which transforms the symmetry of movement inherent in the ideal into an asymmetry which defeats its implementation. "Equality of opportunity" requires downward no less than upward movement. Few deny the case for upward movement according to "talent": it makes good general economic sense; and its morality is now commonly accepted as irreproachable. But the price of corresponding downward mobility—and of the radical policy measures which would be needed to ensure it—is very far from acceptable. So, by and large, increases in individual movement up the socio-economic scale in western countries, over many decades, have occurred only in so far as they could be accommodated without matching increases in downward movement—through shifts in occupational and industrial structure. And the major effect of widening access to the more rewarding forms of education has been to step up the thresholds of paper qualification required for entry to the more rewarding jobs, without substantially reducing the old inequalities of opportunity for entry to such jobs. In short, even the apparent consonance with capitalist principle of the goal of equal opportunity incorporated in so much contemporary social policy has failed to give it much impetus in practical effect.

*Individually graduated "risk reduction"*

As an alternative or significant supplement to provision of a general "guaranteed minimum" in need, western social policies have increasingly turned to provision of a graduated kind, which in effect incorporates a different objective: to make for greater continuity in the material conditions of individuals between periods of normal employment and periods when—by virtue of circumstances deemed to be wholly or largely outside their own control—they are out of work. Benefits are typically still tied to "contributions" made in the course of past employment, with corresponding symbolic endorsement of the "work ethic." Such contributions in turn are typically graduated at least over part of the range of employment earnings—if only to give provision in this form an illusory appearance of "insurance". But the essential feature of such schemes—irrespective of the modes of taxation nominally attached to them—is that benefits vary according to previous earnings in the labour market. The rationale is to prevent an "excessive", "intolerable" or "debilitating" drop in level of living when individuals face short-term crises of unemployment or illness, alternatively the long-lasting contingencies of old age or irremediable handicap: in short, to counter some of the common risks of dependence on the labour market, at rates which bear an individually differentiated relation to pickings in that market. The rates of "compensation" or "income

maintenance" may still fall well short of past rates of earnings, as in Western Germany where graduated provision has long been predominant. But in Sweden and Denmark, for example, new schemes introduced within the last decade or so have provided for short-term benefit—in respect of unemployment or illness expected to be followed by resumption of work—at rates at least nominally up to 80 or 90 per cent of previous job earnings. There is here a conception of "equality" at work—not of course societally, between classes; but for individuals, over much of each span of life.

Such graduated provision, if only noticeably in the more generous versions towards which Scandinavian social policy has been edging, has a positive implication for reduction of class inequality in one respect. That is to extend the protection against sharp fluctuations in wage-earning life circumstances offered, on a very modest basis only, by "minimum guarantee" provision. It was indeed precisely this consideration—a demand to reduce the traditional element of "unpredictable risk" in proletarian life, to give manual workers more of the security otherwise reserved for non-manual employees—which social-democratic sponsors of the recent social security reforms in Scandinavia underlined among their arguments. And on that score, another set of legislative changes, in several countries including Britain, bear comparison with graduated benefit provision: changes in labour law which, to some degree, have extended to ordinary wage-earners protection against dismissal and redundancy previously limited by employers' discretion to "staff." Such statutorily enforced changes in contracts of employment, moreover, resemble graduated benefit provision also in offering, in effect, more protection for skilled workers than for unskilled workers, who are liable to change jobs frequently and thus not adequately to meet the conditions attached to legal protection.

But that is also as far as any significant softening of class inequality goes. No necessary transfer of resources follows between classes as aggregates. True, although graduated contributions are counteracted by graduated benefits, provision may still be made for some element of positive redistribution within the terms of such schemes, seen in isolation from the rest of the "welfare system." But the results of that cannot be assessed in isolation—without reference, in particular, to such encouragement as may simultaneously be offered to members of well-paid occupations to "opt out" into ostensibly private schemes, on more favourable terms in effect buttressed by the state through tax concessions. The new arrangements for graduated pensions passed with support from all major parties in Britain, for example, will need eventual detailed assessment precisely on that score. Graduated provision, moreover, positively endorses capitalist principles in two quite specific ways. First, one significant aim in meeting individual "crisis" by financial "compensation" is to avoid such

debilitation or demoralisation through poverty as might prevent the individual from returning to work. It appears in fact to have been this "rehabilitation" argument—a concern to make the "work ethic" effective when it might otherwise be undermined by personal and family stress—which was more persuasive than the case in equity for manual-worker security, in swinging majority political opinion in Scandinavia behind generous rates of "income maintenance" in respect of unemployment and limited-term illness. (Even so, the balance between "rehabilitative" and "penal" approaches to enforcement of the "work ethic" is delicate; and 80-90 per cent compensation rates remain vulnerable, especially in periods of economic crisis, to the charge that they remove incentives to work rather than maintain a morale conducive to a return to the labour market.) Second, and very obviously, graduated provision sets an explicit stamp of approval—or at least of unalloyed acceptance—on the inequalities generated by market mechanisms. Far from endeavouring to detach income and its distribution outside working life from the forces which determine it in working life, it rigorously extends capitalist rules of distribution from work into non-work. The road to development by the state of any autonomous conception of economic justice is closed.

#### *Selective equality of condition*

Traces of a fourth specific objective can be identified in the social policy compendia of some western countries. To extract an "ideal type" from arrangements in reality never so clear cut, the aim here can be seen as that of insulating a particular area of life from control by the distributive principles of capitalism; and of seeking, within that area, equality of condition for all. The clearest, indeed the only, approximate example is that of provision for health and medical services; and there the British National Health Service, in the form in which it was enacted in 1946, remains the prime model—whittled down at its edges since then; but its scope as initially envisaged still not quite paralleled, for example, by later reforms in the same direction in Scandinavia. The essence involved was this. Public policy declared health an "essential" good: access to the medical and immediately associated institutional means for its protection or restoration an equal right of all citizens, irrespective of income or other circumstances apart from medical need. Any deviation from equality of service according to need would, in principle, be acceptable only in so far as it concerned what might be deemed "frills"—matters inessential for protection or restoration of health. Here was a conception of real "equality of citizenship"—not merely, by virtue of nominal common participation in a scheme of national social "insurance";<sup>10</sup> but by virtue of a goal of substantive equality of condition, though to be sought only in this selected field.

It may be argued that the very restriction of the conception to this

one field undermines my contention that the aim was "equality of condition" in respect of health. Equality of health could not and cannot be achieved without substantial reduction of the contextual socio-economic inequalities which influence morbidity and mortality: reduction on a scale well outside the ends and means of accompanying social policy either then or now. What was sought through the National Health Service, so this argument may run, was less equality of condition than equality of access to services—a goal similar to that of "equality of opportunity" set for the English system of public education in 1944; and there again effectively, and weakly, re-interpreted as "equality of access." There is much point to this argument, in so far as it identifies inherent contradictions in social policy: the tension between a radicalism of vision embodied in the original National Health Service Act and the reforming conservatism which characterised other social security legislation at the time. But there was, precisely, tension of that kind. Unrealistic though this was, the proponents of national health dreamed of equality of health; and they made larger plans for preventive, as well as curative, medicine to that purpose than in fact materialised. There is, moreover, little utility to an analogy with education. In both fields, it is true, equality of access has been postulated as an aim of policy—but to different ultimate ends: in education, for the sake principally (and at best) of equating opportunities for eventual inequality; in health, exceptionally, with a hope of approximating equality of condition.

The key word here is "exceptionally." Even within the field of health, the goal of substantive equality has receded into elusiveness, both as the pressures from the contextual inequalities of the larger society have made themselves felt; and as the institutional devices to secure equal access have proved inadequate or, in some respects indeed, have been stripped down. Still more noticeably, neither in Britain nor elsewhere has the implicit notion of "selective equality of condition" been extended from health to other possible spheres. Health, no doubt, is intrinsically the least contentious candidate for immunisation from market forces in this manner—though that in no way makes it an inevitable candidate, as especially the American record demonstrates. But a good case could be made for taking housing wholly or largely out of the market. To say that is not to deny that, even from a stance in favour of equality, there would be sizeable attendant problems in guaranteeing housing of good current standard as a citizen's right of all households: the risk especially of a concentration of effectively irresponsible power in the hands of bureaucratic agencies and "professionals", entrusted with assessment of need and allocation according to household circumstances. The striking point, however, is that such risks—to which in any case, of course, the predominantly wage-earning class tenants of public housing in one form or other are already selectively exposed—have never been weighed against counter-

means and potential advantages, in serious consideration of possible adoption of such a policy. The option has in practice hardly figured on political agendas. The risk of usurpation of power on the part of "dispensing authorities", moreover, need hardly rise if the principle of "selective equality of condition" were extended to certain forms of provision in cash rather than in kind. It would be possible, by way of significant example, to provide "citizens' pensions" in old age at a standard set equally for all, by reference neither to general minimum wage earnings nor to individual past earnings, but on a par with the average level of living currently yielded by the economy. Indeed, unlike the more radical possibility of providing all households at whatever stage of life with a basic solid income, varying only by household composition, "average income citizens' pensions" would pose no direct threat to the "work ethic." Yet to practising politicians, such a proposal would be in the realm of fantasy.

Policy makers with their feet well on the ground would rule out any such extensions of "selective equality of condition" in the first instance, no doubt, merely by reference to cost. And on that score alone there would indeed be some challenge to the operating principles and mechanisms of a capitalist economy. The sheer quantity of funds required for transfer payment would sizeably step up overall levels of taxation and thus—whatever the incidence of the additional taxes—make for a further perceived threat to profit and pay incentives as economic regulators. Moreover, for greater redistributive effect, measures to extend "selective equality of condition" would need to be coupled with more progression in the total tax system, in order to "claw back" from the wealthy the value of the citizens' benefits which they obtained initially on a par with others. But beyond all this, the absence of proposals to extend "selective equality of condition" beyond the field of health—even to ensure full application in that field—must be ascribed to the challenge of basic principle which this conception of social policy, quite unlike the three discussed earlier, poses to the rules which govern distribution in a capitalist economy. For what it entails is an overt and public denial of legitimacy to those rules: in the first instance, of course, only to their application in the field selected for "immunity", health and no more so far. But even that circumscribed denial of legitimacy sets the shadow of a question mark against the moral validity of capitalist distributive rules in other applications. Give substance to the shadow by also taking housing out of the market, for example, or by detaching livelihood in old age from all reference to labour market minima and differentials: and two intertwined consequences would follow. The spheres of life within which capitalist distribution has effect—and from which its potency to fuel the economic engine derives—would have been narrowed significantly, if still not so far as to bring the engine to a stop; and the prospect of further curtailment would loom larger, just because the question

mark set in public policy against the legitimacy of property and market mechanisms would have acquired more body.

### *Diffuse redistribution*

Each of the four objectives which I have so far tried to disentangle from the knot of contemporary social policies has a fairly clearly definable character, and a fairly readily recognisable place in relation to the twin principles of capitalist distribution from which I started. The first three are broadly compatible with the latter. The fourth is in essence at odds with them: it incipiently echoes the conception of wholesale equality of condition which I sketched as a hypothetical counterfoil to the cumulative inequality of capitalism; and just for that reason it is represented in current social policy only within a strictly confined space. But the catalogue is incomplete without reference to a further class-relevant orientation in public policy: one which, by itself, has no such specific character and thrust. This is the gearing, actual or purported, of government measures to some mitigation of inequality, but in a manner that leaves the extent, purpose and boundaries of the redistribution to result undefined even by implication.

A "diffuse redistributive" objective of this kind is often one tacked onto policies in large part directed to other ends. An obvious example is direct taxation. The "other ends" of that, of course, are to raise revenue and, since World War II, to regulate levels of economic activity. There are evident ambiguities of purpose to its redistributive element: .both because progression in the rates of direct tax is arranged and modified *ad hoc*; and, at root, because it remains unclear whether progression is intended only as a means to place the heavier revenue burdens on the stronger shoulders or, more positively, also as an active instrument to change the pattern of real income. Counter-inflationary "incomes policies", again, quite commonly now have attached to them some ostensible provision for priorities to favour the lower-paid—at least from time to time, but even then without specification of any target distributional outcome or of the norms of justice intended to be represented in it. Regional aid and employment creation programmes are in part, even primarily, directed to raising levels of economic activity and utilising wasted resources; but in the same breath therefore also to changing the balance of labour demand and supply with consequential, though rarely precisely designed, effects on income distribution. Provision for some redistribution to boost low incomes may again be built into schemes of social security principally tuned to other purposes. The new British pension scheme is both an example and, as emphasised earlier, a reminder that ultimate effects on inequality cannot be assessed by reference only to the public face of such a scheme in itself.

This last point is central when written large. Considered in the round,

and in the context of associated measures, measures of "diffuse redistribution" appear to have had little net impact on class inequality. Their potential is more or less neutralised by other ingredients of the packages in which they are wrapped up. Such progression as there is within direct taxation is countered by regression through indirect taxation: this general pattern seems to be repeated from country to country, as well as over time, though the precise balance between progression and regression is not unalterably fixed. And indirect taxation has much to make it palatable to policy makers. It yields large sums in revenue, at rates relatively simply adjustable from time to time, in an "invisible" form which cannot be decried as undermining pay incentives. The latter is a crucial consideration in economies where incentives in general are institutionalized in monetary form; and where the very steepness of initial inequalities, moreover, arguably requires very sizeable real increments as incentives to additional initiative or effort on the part of those—managers and directors especially—who are well placed to start with. In addition, while policy makers now cannot fail to know that regressive indirect tax counters progressive direct tax, the general public are likely to know this at best only hazily. The combination of the two forms of taxation therefore helps to subdue potential social conflict—so to smooth the way for continuity in policy—by maintaining an appearance of progressive equity in taxation while avoiding its risky substance.

"Incomes policies", too, seem at most to have made only marginal dents in class inequality. Even if the overall spread of incomes should have undergone some mild compression during the last decade or two—and the evidence for that as against broad overall stability is open to question—there are too many variables at work for any separate effects from government manipulation of restraints on pay, profits and dividends to have registered." Nor is that surprising. When British governments, for example, have gone beyond mere rhetoric in coupling restrictions on monetary income growth with preferential treatment of the lower-paid, this has been limited to particular phases, ordinarily succeeded—as in prospect for 1978/79—by concessions to iron out "anomalies", restore "differentials" and re-establish an allegedly eroded hierarchy of incentives among higher management. Even within purportedly redistributive phases of incomes policy, moreover, loopholes proliferate for evasion: for the continued operation of labour market pressures through productivity bargaining and through "wages drift" by local settlement; for managerial incomes to grow *de facto* through unrecorded augmentation by new perks and allowances. Even in Sweden, where an ostensibly far firmer and more consistent policy towards inequality reduction has been tacked onto incomes control by government in association with unions and employers, "earnings drift" and pressures for the reassertion of differentials appear to have reduced the net effects to inconsiderable dimensions.<sup>12</sup>

Measures of "diffuse redistribution" have a potential quality of radicalism to them on two scores. First, they imply doubt about the moral validity of the pattern of distribution resulting from capitalist economic mechanisms; and just because the precise target of purported redistribution is left in the air, the boundaries of the doubt implied are similarly open. Perhaps only "poverty" is questioned, as it is in the philosophy of "minimum guarantee"; but perhaps—perhaps—also inequality across a wider range? Short as it is on substance, even the rhetoric of "diffuse redistribution"<sup>v</sup>—recently magnified to accompany government restraints on pay—could help to bring the issue of inequality into clearer focus on political agendas. Second, policies of "diffuse redistribution" might conceivably be so sharpened and detached from countervailing measures as to be given real bite. But if it is possible to discern that sort of potential for radicalism, it is at the same time, so to speak, negated by its own inner self. No targets for redistribution are set, no alternative norms of economic justice are asserted in clear challenge to those which prevail; and there has been no real bite in fact to the policies actually implemented. The inference is pressing, if not proven, that they cannot acquire bite within the continuing context of a capitalist economy.

#### IV

So back, in summary, to the question of "welfare state limits." Among the five catalogued objectives of social policy—broadly defined to embrace measures such as incomes policies which play upon property and market incomes *ab initio*, as well as taxes and benefits which modify the initial pattern of incomes *post hoc*—three are not in central conflict with the distributive rules and economic mechanisms of capitalism. To say that is not to postulate that capitalism is served positively better by the presence of policies incorporating these objectives than it would be by their absence. Moderate as these objectives are, the growth of an elaborate state machinery to pursue them has in part been forced upon capitalist economies, both by direct pressure from collectively organized labour and by the need to contain indiscipline, disruption and potential subversion on the part of labour. But provision of a "minimum guarantee"; the state's emblazonment of "equal opportunity" on its banners and its institution of a variety of measures to lower barriers to that end; the proliferation of graduated benefits tuned to labour market differentials, with a reduction of old risks and uncertainties in wage earning life as both aim and effect—these can be accommodated within a capitalist economy fairly well. Not, certainly, without a price and without attendant tensions. They require large funds and so high levels of taxation, even if the consequent threat to profit and pay incentives is mitigated by effectively even rates of taxation across the board. They make for some redistribution of resources between—

not just within—classes, moderated though this is again by the way in which taxes fall. Both minimum and graduated benefits may—or may seem to—put maintenance of the "work ethic" marginally at risk, given the institutionalized emphasis on monetary incentives characteristic of a capitalist economy.<sup>13</sup> And for all the resources devoted to this, reduction of barriers to unequal opportunity cannot apparently be pushed far without adoption of measures, beyond that aim itself, to reduce substantive inequalities; and so it is not pushed far. Yet, in their essentials, these three objectives of social policy remain within the limits of capitalist rules and mechanisms.

Not so the objective of "selective equality of condition" represented—if rather raggedly—in British and now also Scandinavian health service policies. Nor again would a determined re-gearing of measures of "diffuse redistribution" to effective compression of the range of inequality in all likelihood be compatible with the complex of profit returns to capital and income inequalities in the labour market which turn the wheels of enterprise in capitalist economies. It is on an extension of those two orientations of social policy that any hopes of radical reform would have to rely. For only they at all significantly challenge the prevailing principles of distribution and the mechanisms associated with them. But just for that reason, it is hard to conceive that such reform could be taken far—without conversion into revolution.

This—a pessimistic conclusion for those who like myself see no signs of revolutionary impetus, now or round the corner—may be to assign rather more fixity to "welfare state limits" than is justified. If those limits have already here and there been marginally exceeded—as they have in health service provision—they might be exceeded again, by extension of the same principle to one or two other fields. The circumstances in which that might occur, and the cost still be counted as compatible with maintenance of the capitalist economic engine in running condition, seem no more easily predictable than was the British health service ten years before its institution. Nor is it possible to define in advance the precise point at which, say, a redistributive re-gearing of the entire bundle of taxation would put—or be seen to put—profit and pay incentives so far at risk that the only alternative to outright conversion of the economy to some socialist form would be retreat. But if on these grounds, the limits of welfare reform within a capitalist framework are not entirely fixed, there seems nevertheless little enough elasticity to them. Any hopes that they can be stretched very much further than to form a compound package of ingredients already present in some policies somewhere is likely to prove illusory.

## NOTES

1. The data referred to appeared in G.A. Stephenson, "The effects of taxes and benefits on household income, 1976", *Economic Trends*, February 1978. The latest in an annual series of such reports, this differed from earlier ones in allowing analysis of tax and benefit effects to be traced consistently through each stage for decile groups (the richest 10 per cent, the next 10 per cent, etc.) according to "original" income, household type by type. Parallel material was presented for 1971, but I draw on that here for only one point (see note 11 below). All calculations which follow in the text and tables are my own, based on the material in Appendix Table 3 of the source. (Detailed definitions can be found in that paper.)
2. Throughout I have counted "subsidies" (to council housing and to reduce food prices to consumers) as "benefits", whereas in the summary analyses of the original source they were treated as a form of "negative indirect tax" to be deducted from indirect taxes proper.
3. In the more complex sequence of reality (with which analysis of material for a single year cannot cope), one year's benefits of course are financed in part from the preceding year's taxation.
4. The calculations which follow in this paragraph are based on the material (again from Central Statistical Office family expenditure survey data) presented in *Report no. 5* of the Royal Commission on the Distribution of Income and Wealth, 1977 (Cmd. 6999), table 23, page 53. The figures presented by the Royal Commission do not allow direct addition of the respective incidences of direct and indirect taxes because, while direct taxes are related there to "original" income plus cash benefits, indirect taxes are related to such "gross" income *minus* direct taxes (i.e. to "disposable" income). The result is to understate the degree of regression in indirect taxation as it would appear (and as I estimate it here) in relation to "gross" income *before* deduction of direct taxes. (The adjustment I have made, in order to make my estimates, is to assume a ratio of indirect tax to net income in each decile group of gross income equivalent to the ratio shown in the Royal Commission's figures for the corresponding decile group of net income).
5. My extrapolation is from table 22, page 51 of Royal Commission *Report no. 5* (op. cit.), which in respect of all households in 1975 shows virtually the same share (44 per cent) of all "original" income in the hands of the initially richest 20 per cent as do the 1976 data; and 38 per cent of "final" income in the hands of what by then is the richest 20 per cent—a share which I assume likely to be roughly correct also for 1976.
6. This may sound as if I claim more for what follows than I intend or than is justified. I have drawn heavily on previous work, both detailed description and especially general characterisation, in my catalogue of social policy "objectives" relevant to class inequality. If there is any originality to it, it is in the attempt to classify specific policy measures according to the class-directed aims, and the implicit conceptions of acceptable equality (or unacceptable inequality), represented in them: thus to put a little more "policy flesh" into general characterisations of the "welfare state." Among the general characterisations and discussions on which I have drawn, the following especially deserve note: V. George and P. Wilding, *Ideology and Social Welfare*, 1975; J.C. Kincaid, *Poverty and Equality in Britain*, 1973; T.H. Marshall, *Citizenship and Social Class*, 1950 (chapter I); idem, *Social Policy*, 1970 (new ed. 1975). R. Mishra, *Society and Social Policy*, 1977; Julia Parker, *Social Policy and Citizenship*; 1975; R.M. Titmuss, "The social division of welfare" in his *Essays on the Welfare*

- State*, 1958; *idem*, *Social Policy*, 1974; Dorothy Wedderburn, "Facts and theories of the welfare state", *Socialist Register* 1965; with respect mainly to the USA, P. Marris and M. Rein, *Dilemmas of Social Reform*, 1967 (2nd ed. 1972); and with respect to Denmark and Sweden—B.R. Andersen, *Nyere målsetninger i socialpolitikken*, 1966; *idem*, *Grundprincipper i socialpolitikken*, 1971; Socialutredningen, *Socialutredning och medel*, 1974 (Swedish official reports, SOU 1974: 39). I have also made some use of such comparative studies as A.J. Heidenheimer et. al., *Comparative Public Policy*, 1975; P.R. Kaim-Caudle, *Comparative Social Policy and Social Security*, 1973; B.N. Rodgers et. al., *Comparative Social Administration*, 1968 (2nd ed. 1971)—although their orientation did not on the whole match my purpose in this paper.
7. Cf. especially Marshall, *op. cit.*, 1950.
  8. This point and the general role of welfare provision in enforcement of labour discipline are underlined especially by Kincaid, *op. cit.*
  9. The Family Income Supplement introduced in Britain by a Conservative government in the early 1970s, for example, stepped up benefits to children (on means test) without direct risk of the "work ethic", because it was made available only to households with an earning member. The new "child benefits" in Britain—to replace family allowances and tax allowances for children—will similarly constitute no threat to the work ethic, because they will be paid to all families with children (whether with or without earners) and will be free of tax. But by the same token they will, in themselves, be non-distributive except in adding proportionately more to low than to high incomes. The measures of "graduated provision" discussed later lift, and have been designed to lift, benefits for many above a "general minimum"—i.e., by reference to past earnings.
  10. My use of the term "citizenship" here thus differs from Marshall's (*op. cit.*, 1950), though the coinage is his. While National Health was part of the welfare state system discussed by Marshall, he saw a significant equality of status (citizenship) implicit even in the basic national insurance arrangements designed to provide only a "general minimum" in need.
  11. The Royal Commission's tax-return based figures (*op. cit.*, pp. 20-22) show a fairly continuous trend towards mild compression of income inequality, before as well as after income tax, over the period 1959-1975. But this might, not implausibly, conceal a possibly counteracting appropriation of real income by the relatively wealthy in the form of increases in fringe benefits and the like not recorded in the figures. Regardless of that possibility, data from the regular family expenditure surveys suggest, for the period 1961-70, an increase in inequality of "original" incomes barely neutralised by a simultaneous increase in state redistribution (J. Westergaard and H. Resler, *Class in a Capitalist Society*, 1975, pp. 44-49, 66-68). The parallel material on which I have drawn for Part II of this paper, moreover, suggests very little if any reduction of "original" income inequality over the later period 1971-1976, but again some slight stepping up of redistribution through state activity. Whatever the precise truth behind these discrepancies in the evidence, clearly no major shifts occurred—in either original or final income distributions. It is also worth noting that, fairly inelastic as the limits of "welfare state" activity arguably are, redistribution is sensitive at the margins to policy measures; and that, generally over the 1960s and 1970s, such redistribution increased a little—though if the family expenditure survey evidence can be trusted on this score, not quite enough to balance a countervailing increase in initial inequality during the 1960s; only thereafter with a mildly positive net effect on the trend of "final" income distribution.
  12. Cf. R. Scase, *Social Democracy in Capitalist Society: Working-Class Politics*

*in Britain and Sweden, 1977.*

13. It is possible, of course, that a socialist economy adopting some version or other of my goal of "equality of condition" would decide to buttress an "ethic of work" by means of monetary incentives. Its options on this score, however, would be wider than in a capitalist economy, in which monetary incentives are highly institutionalized by the inherent logic of capitalist economic mechanisms. And whether or not a socialist economy used monetary incentives to deter total withdrawal from work, any monetary incentives to additional effort or to induce mobility of workers could be compressed within a much narrower range than in a capitalist economy, in that the base levels of income (shorn of any such incentives) would be equal.

### *Acknowledgements*

I presented an early version of the major part of this paper (all except part II) to a large seminar at the Danish Institute for Social Research in Copenhagen in November 1977. I wish to thank the sponsors and audience of the seminar—among them, Iver Hornemann Møller, Henning Friis, Ole Høeg—both for this opportunity to put my ideas in draft and for comments and criticisms which allowed me to revise them. I wish also to thank my colleagues at Sheffield University, Eric Sainsbury, David Phillips and Alan Walker, for detailed and cogent comments on a translation of that seminar paper. I wish finally to thank Mr. E. Jones of the Royal Commission on Income and Wealth and Mr. G.A. Stephenson of the Central Statistical Office for guiding me to the latter's paper (see note 1 above), and the Swedish Institute in Stockholm for sending me much relevant Swedish material.