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a COVID-19 briefing

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Redefining the

state of welfare?

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STEPHEN DAVIES

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## About the author

**Stephen Davies** is Head of Education at the Institute of Economic Affairs in London. From 1979 until 2009 he was Senior Lecturer in the Department of History and Economic History at Manchester Metropolitan University. He has also been a Visiting Scholar at the Social Philosophy and Policy Center at Bowling Green State University in Bowling Green, Ohio and a programme officer at the Institute for Humane Studies in Arlington, Virginia. A historian, he graduated from St Andrews University in Scotland in 1976 and gained his PhD from the same institution in 1984. He was co-editor with Nigel Ashford of *The Dictionary of Conservative and Libertarian Thought* (Routledge 1991) and wrote several entries for *The Encyclopedia of Libertarianism* edited by Ronald Hamowy (Sage 2008), including the general introduction. He is also the author of *Empiricism and History* (Palgrave Macmillan 2003), *The Wealth Explosion: The Nature and Origins of Modernity* (Edward Everett Root 2019) and of several articles and essays on topics including the private provision of public goods and the history of crime and criminal justice.

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## Summary

- Major crises such as wars and pandemics (such as the 1918-19 Spanish Flu) have often been the occasion for radical reconstruction of the welfare system. It is very likely that the Covid-19 pandemic will also do this.
- This is because it will bring discontent with the existing system to a head and will lay bare its weaknesses, particularly as regards its central element, Universal Credit.
- There will be a major public debate or conversation. Indeed it has already begun.
- In that conversation one idea that is bound to have a lot of support and has a 'head start' is that of a Guaranteed Minimum Income and in particular one version of that, a Universal Basic Income.
- There are however strong doubts or objections to that idea, from all parts of the spectrum, and there are several rival ideas.
- The debate cannot be a purely technical one because it touches upon fundamental questions, which have also been raised by the impact of the virus: the place of the home and household; the importance and nature of work; and the role of civil society and voluntary action.

# Introduction

Historically, radical changes to the welfare system are associated with major crises and events such as wars, civil unrest, famines or epidemics. The contemporary welfare state grew out of the experience of World War II and was itself essentially an amendment of the system created by the Baldwin government in the aftermath of the Great War (Edgerton 2018). However, major crises or events do not lead to completely novel ideas about the welfare function of government being put into practice. What happens is that trends already under way before the event are expressed more fully, and ideas that were around and being debated but not fully accepted move into the mainstream and are given effect.

It is very probable that the Coronavirus pandemic will have an impact of this kind here in the UK. It will bring to a head discontent with the existing system that has been growing for some time and will bring certain ideas for reform from academia and think tanks to the centre of the policy debate. It is likely to strengthen support for moving to some kind of Guaranteed Minimum Income (GMI) as the central feature of a reformed welfare system. One specific variant of that wider class of measures is a Universal Basic Income (UBI). There is the clear possibility of a consensus forming around that idea because it has supporters on all parts of the ideological spectrum and can be defended from different ideological starting points. However, it also attracts opposition from all corners and there are several completely different approaches that may also be floated, most notably that of Universal Basic Services (UBS).

Moving to a UBI is not simply a matter of practicalities such as cost, as it also raises very fundamental questions about the way we live, which again cut across conventional ideological divides. The Coronavirus crisis is therefore almost certainly going to trigger a debate that will cut across existing political divisions, and which will have an uncertain outcome.

What seems very unlikely is that the status quo will survive the experience of the pandemic.

## The impetus for radical change

Historically, major structural changes to the welfare system, or changes to the basic principles underlying it, are infrequent. They happen at or after times of crisis, when the working of the existing system becomes widely unpopular and loses support and a consensus emerges around what should replace it. Very often a major event such as a war is the trigger for this.

After World War I, the 1920s saw measures such as the introduction of state housing, the creation of the Department of Health, and major changes to the workings of the system of poor relief. During World War II, discontent with the existing system that had built up during the 1930s found expression in wartime debates over what should follow the conflict. A consensus consolidated around the 1942 Beveridge Report (after some debate) and this was put into effect after the war. That system in turn was the subject of much debate in the 1980s and was transformed from one based on a contributory principle (with entitlements acquired by accrued contributions) to one where the central element is income supplements through cash transfers, on the basis of need established by means testing. This has been reformed recently through the introduction of Universal Credit (UC).

Faced with the Covid-19 pandemic, the government has taken steps that have brought about a massive reduction in economic activity. It was recently revealed that 23 per cent of all employed people are now having 80 per cent of their wages paid by the taxpayer, through the furlough scheme. The aim of this is to preserve as much as possible of the supply side of the economy for when the pandemic passes, but many see it as an illustration of a different principle: that the state has a responsibility to support incomes in a universal way, so that there is a floor to income that nobody falls below.

Despite the government's measures there is also a sharp rise in unemployment and a fall in income for many people and these have led to a rapid and continuing rise in claims for Universal Credit. This will reveal the limitations and weaknesses of the system, both when faced with a crisis of this kind and inherently. UC by design has a complex application procedure, with strict means testing and many sanctions. There is a five-week delay before the first payment is made and subsequent payments are made on a four-week basis. These provisions frequently lead to serious hardship for people whose income and spending do not fit into a monthly cycle. The system is built around supplementing the incomes of those in employment and providing incentives to enter it and so does not work well for people such as the self-employed or workers in the so-called 'gig economy'.

All these weaknesses are being laid bare by the crisis. That means it will bring pre-existing discontent to a head and massively add to it. We will inevitably have a conversation, just as in the 1940s, over the flaws of the existing system and how to address them. In fact, it is already starting. The *Financial Times* has called for a major debate on the subject. In particular, we are seeing calls for a move away from means tested supplements to a quite different principle, that of an unconditional Guaranteed Minimum Income (GMI). This idea was widely advocated during the 1970s and 1980s, with several people, including Milton Friedman, advocating a scheme of this kind (Friedman [1962] 2002; Parker [1989] 2019); Davies 1986).

A letter sent to the *Financial Times* and signed by over 100 MPs and peers, from all parties except the Conservative Party, called for an unconditional basic income to be introduced as part of the programme to deal with the pandemic and its aftermath. The letter was organised by Compass, a long-standing advocate of a UBI, and the letter was followed up by a paper written by Stewart Lansley, who had previously written a worked-out proposal for a scheme (Lansley 2020). There has also been a motion in Parliament and calls from other quarters, while the Prime Minister has stated that a UBI was one of the measures the government explored as a way of responding to the pandemic. Elsewhere, the Spanish government has suggested moving in this direction, while several countries, including the US, have instituted one-off unconditional cash transfers as part of their response.

It is already clear that, just as in earlier historical episodes, the Coronavirus pandemic has brought discontent with an existing system to a head and



opened the way for thinking about a radical change. Some people are simply arguing for an extraordinary and temporary response to an emergency, with the implicit argument that once it is over things can go back to where they were, as far as welfare policy is concerned. This seems very unlikely, for several reasons.

Firstly, there is the simple fact that if something can be done in an emergency that demonstrates its feasibility. Many will then argue 'If we can do this now, why not in normal times?'. To argue against that you must have a principled objection to the measure that should only be overridden in a genuine emergency. The point though is that the existing system was already unpopular with a wide spectrum of opinion, so simply arguing for a return to the status quo ante is not going to be persuasive – if you do have a principled objection to a UBI then you need to have a different alternative in mind to the regime that is currently being subjected to a severe stress test.

Secondly, there is a widespread realisation that the current pandemic was very much a crisis foretold, with many warnings over the last decade or more that something like this was bound to happen eventually. Even worse, the indications are that the probability of a serious pandemic has increased in the last three decades while economies have become more vulnerable to the impact of such an event. This means that we cannot, and should not, think of this as a once in a century event; the probability in each year is now higher than one in a hundred so we should expect such events to happen more frequently.

Thirdly, as mentioned, the pandemic is going to accelerate changes that were already under way in the patterns and nature of work and employment. Not only will this produce significant transitional effects, it will on the evidence lead to changes in a direction that the existing system was already having trouble coping with, such as higher levels of self-employment and insecure or fluctuating income (not necessarily low though). One popular thesis is that the virus will intensify and accelerate a movement towards higher levels of automation, which it is hoped/feared will result in the disappearance of most jobs or employment. There are good reasons for thinking that this will not happen, but the argument that the labour market will change in ways that the current system is not equipped to deal with does not depend on these prognostications being borne out.

Moreover, because of the severity of the impact of the epidemic and the very high likelihood that recovery will be slow (a so-called U-shaped recession) some kind of response will need to be in place for some time, probably at least two years. This is a long enough time for any measures taken to amount to a definite move away from the system in place before the pandemic. Long-standing advocates of a UBI have therefore seen this crisis as an opportunity to push the idea and to try and get a decisive shift in policy towards it. At the same time some who were sceptical on practical or cost grounds are now entertaining the idea, not least because, after the kind of massive measures taken, to object to a reform of this kind on those grounds is to strain at the proverbial gnat.

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## Options for reform

Introducing a universal payment as an emergency measure is challenging. It is not practically possible - as Lansley (*ibid.*) states in his essay - for this to be done. The reason is straightforward but for many surprising: the UK government does not have a list of all the legal residents of the country. There are many separate lists but none of these is comprehensive and they are not coordinated or combined. This means that for the moment any universal payment will fall at the first fence because the government does not have a list of all of those who would be entitled to it.

There are two possible partial measures that could be introduced. The first, which the Compass paper recommends, is to significantly increase child benefit so as to increase the income of households with children. The other would be to remove the means testing aspect of Universal Credit and make it available to anyone who applied through a simple process. Neither of these is satisfactory for an advocate of a UBI but they both represent a shift in the direction they want to see, of a public responsibility to put a floor under household income. In both cases this would be an emergency measure.

The idea behind the proposals being put forward is that this would be followed by a 'recovery basic income' in which more substantive reforms would be made as part of a process of recovering from the pandemic and which would start the process of moving the system towards a GMI one rather than an income supplement one. In that case it would be important that this was explicitly designed and thought of as a transitional measure. There would have to be both an extensive national conversation and an emergent consensus on the end goal, even if only in broad terms, in much the same way that the Beveridge Report and the debate that followed produced a broad consensus as to how the welfare system should be reconstructed after World War II.

At this stage there are several ways this could be done. The conversation would therefore have to explore both the principle of a move to a UBI or some other kind of GMI as the centre of a welfare system and, should a consensus or majority for such a move emerge, the form that such a shift should take. There are several points to consider in this connection.

The first is that a national conversation of this kind, over how and in what ways the welfare system should be reformed, is inevitable given the slow accumulation of discontent with the existing system and the experience of the crisis caused by Covid-19. The question therefore is not whether such a conversation should happen but what its content should be.

The second point follows from that. Clearly one part of the content will be proposals for a move to a UBI or some kind of GMI as the central feature of a reformed system. This will not be uncontested, to put it mildly. There are strong objections to such a move, not just on practical grounds but also on principled ones, which lead in turn to quite different ideas about what direction any reform should take. This moreover is an issue that divides both left and right, with supporters and critics of the idea of a UBI or GMI on both sides of the conventional divide. Any debate will be both interesting and difficult to contain within conventional party politics, which raises problems given that is how policy is developed and effected in the UK. It also means that the likely outcome is something that combines elements from different approaches but with one predominant.

There are various forms that a GMI or fully fledged UBI could take (see Davies 2019). There could be more limited reform in which a universal payment or citizenship benefit was added to the existing system, replacing UC but leaving most of the other state benefits intact. An even simpler measure would be to keep UC but make it available on an unconditional basis. This would be paid for in most proposals by abolishing the personal tax allowance and converting it to a payment. Even so, it would be expensive, and the benefit would still not be enough to live on (partly by design). This kind of change would also not remove much of the complexity of the system or the problems caused by the way the benefits system (which is household based) interacts with the tax system (which is now individualised).

The more radical ideas would combine the two systems. One kind would have a much higher level UBI that would replace all the existing benefits and be the tax allowance (with NICs abolished and income tax starting at about 40 per cent). The other would be fully fledged Negative Income Tax

of the kind advocated by Milton Friedman and, before him, Juliet Rhys-Williams (Sloman 2015). All of these have been proposed and will be pushed in the conversation that has already started.

Many will reject any of these ideas. The main alternative is that of Universal Basic Services in which the state owns productive assets and uses them to provide a range of essential services either free of charge to the end user or for a flat rate and nominal fee (designed to regulate demand rather than fund the service). This principle, which underlies the NHS, is the old idea of a 'National Minimum', a favourite of the early Fabians, especially Sidney Webb. As with a UBI this has contemporary advocates, such as Tom Kibasi and Anna Coote, who are also strong opponents of a UBI, on principled grounds (Coote and Percy 2020). Many free-market liberals will be unhappy with or sceptical about a UBI but are even more alarmed by the idea of UBS, on civil liberties grounds. The outcome of the conversation could well be a combination of the two, which for free-market liberals would be the worst of both worlds in some ways.

There is in fact a long tradition of classical liberal thinking on the welfare function of society, going back as far as people such as Bernard and Helen Bosanquet (McBriar 1995). This emphasises voluntarism and the role of civil society, above all the role of both organised philanthropy and mutual aid (collective self-help by voluntary associations) (Green 1993). This was actually an important part of Beveridge's thinking, as expressed in his now forgotten report 'Voluntary Action', and it saw a resurgence under David Cameron in the shape of ideas about the Big Society. Free-market liberals in general however have ignored this part of their tradition and have gone down the route of technocratic paternalism and means-testing. This has proved to be a blind alley.

A conversation about the failings of the present welfare system, as highlighted by the pandemic, and what should be done about it, is already under way. At the moment the advocates of a UBI or some other form of GMI are setting the pace, but others will doubtless join in and, indeed, must do so if the conversation is to be informed and to reflect all interests and points of view. The conversation, like its predecessors in both world wars, needs to be concerned with more than the costs and practicalities of suggested changes, important as those are. It will have to explore very profound questions about how we as a society see ourselves, our institutions, and the relations between us.

## Key questions

There are three big questions that need to be examined in this way. All of these are topics that are also being brought to the fore by the pandemic and its impacts (not coincidentally). The conclusions we arrive at concerning these three matters (and others such as the constant one of the relations between the individual and the collective) will drive the practical measures taken to reform the welfare system. This did not happen in the debates of the 1970s and 1980s, which is one reason why the reforms of that time were so unsatisfactory.

The first question is this: how do we understand the household and its place in society? Much of the support for a GMI or UBI from both left and right has a strongly individualistic cast. The argument is all about empowering individuals and enabling them to pursue personal goals. Since 1970 the tax system has been moved to an almost completely individualistic basis and many of the ideas being floated would move the welfare system in that direction as well. However, there is a very good reason why the welfare system is household based. People live in households and, despite their growth in recent years, there is strong evidence that living in a single-person household is not good for most people. The household and the home are still the basic units of society, rather than individuals. So, the question we need to explore is that of how any system will support households. We might have a system that supported household income on an unconditional basis up to a low point but also move the tax system in that direction by making the household the unit of income taxation. This also raises the question of employment and whether we want to continue with the policy of maximising participation in the paid labour market.

The second question is that of the place and importance of work in life and particularly of organised and collective work. The fear of many is that a UBI will undermine work incentives to the point that it will lead many

people to follow a life of idleness. This is deprecated for ethical and social reasons as well as economic ones. One response is to set any unconditional payment at a level that keeps work incentives, but this undermines the anti-poverty goal of the payment. The more common response is to say that what a UBI will do is enable people to engage in creative work and to follow their true interests rather than engage in drudgery. The most radical notion is that it will move us towards ending the alienation of people from their work that Marx was concerned with. From a sceptical viewpoint these kinds of argument look like the ideas and aspirations of the bohemian or artistic/creative class run wild. Some people would respond in the way described but, it is argued, they are a minority. Most people want structured and organised work, often collective, and a regular income from that work, for both practical and normative reasons. To put it in a slightly flippant way, do we want a world of self-employed duckers and divers and creative artists and, to the extent that there obviously are such people, do we want to build the welfare system around their needs?

The third question, which has received comparatively little attention so far, is the role in the crisis of civil society and local voluntarism, and what this tells us. There has been an enormous response by individuals and by people acting collectively at a local level and on a voluntary basis. How important do we want this to be in the future? Action of this kind is more attuned to specific and local need (because it makes use of dispersed and personal knowledge) and is often more nimble and effective than that by the national state, necessary though that is in some spheres. It promotes stronger community ties and personal empowerment and self-governance. What part do we want personal responsibility and voluntary collective action to play? As said, this is a rich tradition of both thought and action but almost forgotten now. Should we revive it and can we devise forms of state aid that will support and encourage it rather than crowding it out? We might design a UBI or even UBS in a way that did this, but equally either of these (and particularly the latter) could be constructed in a way that worked against it.

## Conclusion

Major crises and interruptions to the regular course of events are always both a cause of and opportunity for reflection on how things might change. They have historically been the occasion for systematic welfare reform. The Covid-19 epidemic has already begun a conversation, which is certainly going to continue, and with the idea of a GMI or UBI as one of its major elements. It is almost certain that the status quo in welfare will not survive this test, so this is a conversation that will have effect. What should not happen is for foundational questions to go unexamined or for one agenda to win by default.



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The Institute of Economic Affairs  
2 Lord North Street  
London SW1P 3LB  
Tel 020 7799 8900  
email [iea@iea.org.uk](mailto:iea@iea.org.uk)

