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The Impact of the Welfare State and Social Policy on the Working Population: The Recent British Experience

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Abstract This paper focuses on financing the welfare state expenditures in the UK. It offers a comprehensive analysis of social expenditures and taxes paid by the working population families, and an estimation of the net benefits received by them. While the subsequent analysis of the welfare state and its development primarily concentrates on the British experience, it has a broader application to other OECD countries. The UK as the most egalitarian "liberal market economy," offers an interesting case for the study of the interaction between the welfare state expansion and economic growth. In terms of her capitalist economic structure, (interaction between market and economy) she is relatively closer to the USA and other Angelo-Saxon (liberal market) economies. In terms of her level of social expenditures, she is much closer to the European "social market economies" than the USA and other more egalitarian "liberal market economies."

Keywords The UK · The welfare state · Social policy · Social wage · Social expenditures · Welfare progams · Taxes · Economic growth · Social development · Social ethics · OECD countries

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Introduction

The welfare state acquired a broad acceptance as a major socioeconomic achievement of the liberal democracy in the UK and more or less other Western industrialized countries during the postwar boom period. The modern and modified vision of capitalist democracy offered, on the one hand, the possibility of high growth rate and, on the other hand, the possibility of continued progression of a comprehensive system of social support for a wider population. This paper focuses on financing the welfare state expenditures in the UK. It offers a comprehensive analysis of social expenditures and taxes paid by the working class families, and an estimation of the net benefits received by them. While the subsequent analysis of the welfare state and its development primarily concentrates on the British experience, it has a broader application to other OECD countries. The advanced industrial economies share to different extent a history of progression of the welfare policies in the earlier decades and a relative set back of the welfare state ideas in the recent decades. These countries have, however, been distinct in the scope and the extent of the social programs that they have offered to the population. The UK as the most egalitarian "liberal market economy," offers an interesting case for the study of the interaction between the welfare state expansion and economic growth. In terms of capitalist economic structure, (interaction between market and economy) the UK is relatively closer to the USA and other Angelo-Saxon (liberal market) economies. In terms of level of social expenditures, the UK is much closer to the European "social market economies" than the USA and other more egalitarian "liberal market economies." The recent literature offers a typology of welfare states, based on the recognition of the existence of distinctive varieties of capitalism in the contemporary world. We may then classify the advanced capitalist countries into a limited number of groups, each following a particular model of the interaction between the state and the market economy.

In Gosta Esping-Andersen's (1990) well-known classification of the welfare states, the UK is identified as "liberal" in contrast with more progressive "social democratic" and less generous "conservative" states. In David Socskice's (1999) more recent classification the UK is considered a "liberal market economy" in distinction with "coordinated market economies," which offer more advanced and generous social programs for the working population. This classification focuses on the capacity of states, corporations, and labor unions to coordinate their behavior.

In a recent study, Pontusson (2005), the grouping of the OECD countries is based on a general distinction between two major groups of countries, "social market economies" (SMEs) and "liberal market economies" (LMEs). In this typology, the UK along with other Anglo-Saxon countries of the USA, Canada, Australia, Ireland, and New Zeeland is identified as a liberal market economy. The LMEs are distinguished by lower density of the business communities. In these economies, market transactions rather than corporate coordination, largely define relations among firms as well as relations between the business sector and workers. A second feature of these economies is their weaker unions and less institutionalized collective bargaining system. A third distinction between LMEs societies and SMEs is their more limited public provision of social welfare and employment protection.

As we will see in the analysis of the empirical results, the evidence shows that the UK offers a more generous social spending program than other LMEs. In fact, the UK spends a larger proportion of GDP on social spending than any other LMEs. UK's social expenditures come close to some SMEs. Thus the UK offers an interesting case for the development of the welfare state. The UK is, on the one hand, a liberal market economy in terms of characteristics as a market economy and income distribution. On the other hand, could almost be classified as a SME in terms of the generosity of social spending.

This study adopts the methodology developed in Shaikh and Tonak (1994), and Fazeli (1996). In a prior study, Fazeli (1996) addressed the development of the welfare state and social wage in the UK. It offered a detailed estimation of the benefits received by the working population (social wage), taxes paid by them, and net benefits received by them (net social wage). The empirical study of the net social wage provided a foundation to evaluate the neoconservative claim that the expansion of social welfare expenditures had been responsible for the slowed growth of the 1970s and 1980s in OECD countries. The central finding of that study was that social benefits received by the working population were in most part financed by taxes paid by them. "In other words, by and large social welfare expenditures were self-financed and could not have been a source of fiscal deficits or a drag on growth." (See Shaikh 2003: 531 in his survey of the recent studies on social wage). Fazeli (1996) covered the estimation of the net social wage in the Post-war period up to 1986. The current study concentrates on the 1990s and 2000s. This study, would therefore, allow us to analyze possible changes in the trend of the social expenditures and net social wage in the UK during the last two decades. It will allow us to find out whether the conservative attack on the welfare state since and the 1970s and the Thatcherite radical pro-market policy reforms had any enduring effect on the post-Thatcher development of the welfare state in Britain. We are planning to expand our empirical estimation to other OECD countries in a future study.

The Meaning and the Emergence of the Welfare State

It is evident that the rise and development of welfare state and social policy has played a major role in the formation of the economic and political structures of the contemporary industrial societies. Our study pays particular attention to the central role of the state in the social and economic construction of human labor in an advanced capitalist society. On the other hand, the state is the locus of collective consumption programs and social policies directed toward securing the reproduction of the working population at the social or collective level. It is this latter variable, the provision of social consumption or social wage that is the particular focus of this research.

The recent debate has focused, on the one hand, on the crisis of the welfare state caused by the slow-down of the economy during the 1970s and the 1980s and, on the other hand, on the contribution of the rising social expenditures of the earlier decades to the sluggish growth through subsequent decades. As Shaikh (2003: 532) suggests, "the early part of the postwar period was the zenith of the welfare state as the industrialized world grew at a rate of almost 5 percent annually." In the postwar boom decades, the expansion of social and welfare expenditures faced little challenge, since these redistributionary expenditures could be financed by a rising economic surplus and the wages of a growing number of employed workers.

The modern welfare state was comprised of two major components: social policy and economic policy. In Britain, the first components were built mainly on the basis of William Beveridge's wartime report on "Social Insurance and Allied Services." Beveridge Report, as Pierson (1996: 208) suggests, "was for long seen as one of the main pillars upon which the postwar order in Britain had been built." As Lowe (1999: 5, 6) indicates the Beveridge Report, even though yet incomplete and conservative, had "immense historical impact at both a popular and political level. In Britain it created high, if ill-informed, popular expectation which forced Churchill, the Conservative Party, and the Treasury – very much against their wills – to change their public, if not their private, views on state welfare." The impact of the report went well beyond British borders. "Its rhetoric and broad vision had a huge impact not only on occupied Europe but on peacetime welfare policy."(Lowe 1999: 6) European liberal democracies were able to resolve the old-age dilemma of how to combine the communal security traditionally provided by feudal or totalitarian states with the individual freedom theoretically offered by liberal democracies.

Asa Briggs (1961: 228) has provided a definition of core functions of the welfare state which has been widely accepted by other scholars. He states: "A 'Welfare State' is a state whose organized power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions – first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain social contingencies (for example, sickness, old age and unemployment) which lead otherwise to individual and family crises; and third, by ensuring that all citizens without distinction of status or class are offered by the best standard available in relation to certain agreed range of social services."

The implication of this definition is that the goal of the welfare state is not to transform the structure of capital accumulation in a capitalist society or to change the major rules of game of a market economy. The purpose of social policy is to modify the adverse impact of economic fluctuations on the living conditions of the population. What makes the modern welfare state distinct from the earlier forms of social interventions is its universalism and comprehensiveness. It offers everyone in the population the same insurance scheme against the risk, and insecurities of the market economy. On the other hand, it offers a comprehensive coverage against possible risks of income loss through no fault of individuals. The minimum level of social security is supposed to guarantee freedom from the fear of poverty (Lowe 1999: 6).

The welfare state has also been a departure from the philosophy of a self-regulating market economy. The expansion of social expenditures would have not been possible without the post-war relative prosperity in the western countries. This meant from the beginning that the state was obliged to play a more active role in the economy. This takes us to the second component of the welfare state which emerged in the 1940s across the range of Western industrialized countries.

The welfare state was supposed not only to provide a range of social policies to insure an acceptable level of subsistence for the population, but also to adopt a successful economic policy to guarantee economic growth and employment. If Beveridge Report provided a broad vision for the adoption of a range of social policies, Keynesian economic theory offered an economic vision with respect to the role of the state in fine tuning of the economy. Both Beverdige and Keynes were influential in the formulation of the post-war policies of state intervention in the economic and social life of the society. On one hand, the state committed itself to provide full employment and economic stability based on the Keynesian policies of demand management, and on the other hand, it expanded its role as a provider of social security and welfare programs in line with Beveridge Report (Flora and Heidenheimer 1982a,b,c).

Thus, the post-war accord that led to the formation of the welfare state had two major components: the provision of social welfare programs based on the principle of universalism and the introduction of macroeconomic policy in order to provide full-employment. The Keynesian welfare state was established in the early post-war period in various western industrial countries. Keynesianism justified an active role of the state in the economy and rejected the orthodox notion of no government intervention. However, “it remained compatible with the goals of liberal political economy, because it proposed no interference with the detailed working of markets and individual decision-making only with aggregate demand, aggregate investment and national income (Gamble 1981: 144)

As Lowe (1993: 13) suggests, “welfare states were the unique creation of the 1940s….This is because it was in the 1940s that, across the range of industrialized countries, evolutionary changes in government policy reached a critical mass at which-consciously or unconsciously-they transformed the fundamental nature of the relationship between the state and its citizens.” The evolutionary process started in the last two decades of the nineteenth century. It was during this period that first major national insurance programs were initiated in Britain, Germany, and some other Western European countries. The welfare state is often identified by its departure from the policies and principles dominating the Poor Law period. The study of this earlier history of the welfare state is important for a better understanding of the modern social policy in industrially advanced capitalist societies.

We may identify three major distinctions between the principles guiding the poor relief measures of the early history and major characteristics of a modern welfare state. While the Elizabethan Act of 1601 and the New Poor Law Act of 1834 were reflecting a national policy of relief measures for the poor, they both relied on local communities for the execution of welfare policies (Flora and Alber 1982). However, the contemporary welfare state relies on national institutions to carry out social policy and offers a higher degree of universalism and uniformity for social insurance and welfare policies.

The second major distinction between the two is in their approach toward the rights of the recipient of the benefits. The Poor Laws were carried out within a framework of repression and relied more on punishment than on relief. On the other hand, the modern welfare programs are based on a notion of citizens’ rights (Remlinger 1971; Marshall 1964). Marshall (1964:80) states that “the Poor Law treated the claims of the Poor not as an integral part of the rights of the citizens, but as an alternative to them-as claims which could be met only if the claimants ceased to be in any true sense of the world." In his view, the poor relief measures served to maintain the system of stratification and inequalities intact. The objective of the Poor Laws were to provide relief, while assuring that each level of occupations would be recruited to the appropriate class and imposing restrictions on mobility of workers and fixing wages (Marshall 1981: 32)

Marshall (1981) has developed a historical theoretical perspective of the welfare state. He explains the development of the welfare state through a model of progression of democratic rights. In his view, British citizens first acquired their civil rights between 1650 and 1832, their political rights around 1832 to 1918 and their social rights in the subsequent period. The development of social rights led to the right to social services increasing the real income of the working people and expanding a universal consumption of social services by all citizens.

In this way, citizens would achieve 'equal social worth' in spite of their unequal income through the sale of their labor services in a market economy. The development of social rights increased the sense of community and social solidarity without sacrificing the capitalist need for incentive and subsequently unequal income. The welfare state would offer a practical and constructive compromise between the requirement of capital accumulation and socialist (and democratic) form of egalitarianism.

A capitalist market economy, as John Maynard Keynes pointed out, is an inherently unstable system and would go through phases of recession and recovery. This means that a capitalist society should face the reality of the higher rate of unemployment and the lower income of the working population during the downturn in the cyclical movement of the economy. Thus, capitalism requires the supplementary role of social and welfare programs to insure some level of economic security and social harmony. Moreover, a self-regulating capitalist market economy may be considered as not only economically inefficient, but also as socially unethical.

A major point of reference is Kant's theory of justice, which continues to be influential on contemporary discussions of justice and social equality. Alexander Kaufman (1999) argues that Kant's political theory articulates a positive conception of the role of the state in the society. In his view, Kantian concept of justice requires that each member of society should be given the opportunity to realize his or her purposive capacities. Kantian justice would, then, require the (welfare) state interventions to guarantee equality of opportunities. But the Kantian "universal principle of right" implies that any action is right if it can coexist with everyone's freedom in accordance with a universal law. Rawls' theory of justice offers stronger justification for equality. In Rawls's "veil *of ignorance*" (Rawls 2005), agents would choose two principles of justice, the equality of basic rights and social equality based on the "*difference principle*," according to which inequalities are unjust unless removing them would worsen the situations of the worst-off members of society. This vision offers a broader basis for the role of the welfare state in insuring social justice and fairness in the society.

As we will see in the following section, the social democratic perspective pursues a more social and collective vision of social justice in its goal of transforming the existing capitalist society into a socialist system through democratic evolutionary means. The new society would not only provide political democracy and social justice, but also a more efficient economic mechanism. A major contribution of the welfare state is to offer a deeper sense of community and solidarity. This vision accepts the differential reward system based on a market economy, but supports the moderating effect of the egalitarian redistributive policies. It would be unfair if "the greatest rewards would go to those with the most fortunate genetic endowment and family background." (Crosland 1974: 15) In this way, the principle of fairness goes beyond the concepts of individual rights and equal opportunity and acquires a social meaning, emphasizing social harmony and solidarity among individuals as the members of the society.

The welfare state is supposed to successfully integrate two complementary and potentially contradictory components of a viable modern capitalist society: a capitalist market sector based on individual freedom of choice and initiative and a social institution for the provision of social services and public goods based on the collective decision making. They are complementary, because a viable capitalist society requires both. On the other hand one may argue that the expansion of social programs may be a treat to the very foundation of individual initiative and undermines the drive to accumulate capital.

This study will provide an opportunity to evaluate the above claim. It will provide the trends of net social wage in the UK. The examination of this trend will allow us to determine whether the working population has paid in full or in most part for the benefits it has received from social services provided by the state or it has been, indeed, a net recipient of net social wage. The argument that social policy is inherently a drag on capital accumulation and growth may hold if the latter is true and if the net social wage has absorbed a growing portion of GDP over time.

Economic and Social Aspects of the Welfare State

The Liberal Tradition

The recent debate has focused on the integration between the expansion of social expenditures and economic growth. The question is whether the development of the welfare state has undermined the prospects of capital accumulation and economic growth. As we mentioned in the previous section, the post-war success of the Keynesian welfare state was from the beginning based on some form of harmonious interaction between economic policy and social policy. The two major intellectual founders of the welfare state in Britain, Keynes and Beveridge were both liberal thinkers and committed to the free market economy. But they both acknowledged the limitation of the market economy to provide, on the one hand, a minimum level of welfare for the society and, on the other hand, economic stability. For Beveridge, political freedom was freedom not just from 'the arbitrary power of government' but also from economic servitude to want and squalor' (cited in Lowe 1993: 17). A major principle of Beveridge Report was that "the state in organizing security should not stifle incentive, opportunity, and responsibility" (Harris 1986: 233–263).

In general, Beveridge supported a limited role for the state, guaranteeing a subsistence income for citizens. Keynes also considered a rather limited role for the state. He agreed with classical political economists that the role of the state should not undermine the efficient operation of the free market economy. But he disagreed with the classical belief in a self-regulating market economy. In his view, a capitalist economy, left on its own dynamics, would be inherently an unstable economic system. It was, then, necessary for the state to adopt a more active role in order to induce full employment and stable prices. But the role of the state was to complement the market and not to replace it. The role of the state was to compensate for market imperfection and not to undermine its essentially free operation.

The Social Democratic Approach

As Lowe (1993: 18) suggests, Keynes and Beveridge as reluctant collectivists considered the market as "the best practical mechanism for insuring individual initiative and hence political freedom, economic efficiency and social justice, but its flaws are recognized and thus the need for a judicious degree of state intervention." In subsequent years, democratic socialists envisaged a broader vision of the role of the welfare state. Their ideals were to push the frontiers of the welfare state beyond the social and economic boundaries of capitalism. Like the liberals, they considered a purely self-regulating market economy inadequate in the context of a modern capitalist economy. Moreover, they attacked a free market economy as undemocratic and socially unjust. In their view, a self-regulating market economy was not only economically inefficient, but also socially unethical. Their objective was to transform the existing capitalist society into a socialist system through democratic evolutionary means. The new society would not only provide political democracy and social justice, but also a more efficient economic mechanism than the pre-war capitalism.

One of the leading democratic socialists in Britain was Marshall whose ideas were discussed in the previous section. Marshall emphasized as Mishra (1981: 35) argues "the part that social services can play in creating and maintaining solidarity in conditions of modern society". The goal of democratic socialists was to make the society not only economically more stable and productive, but also politically and socially more harmonious. Titmuss' (1958) famous work, *the Gift Relationship*, followed a similar theme as Marshall arguing that social services would induce stability and harmony in the society (Fazeli 1996:71). In his famous lecture on social division of welfare, Titmuss addressed three kinds of welfare state. State welfare included transfers in cash or kind to individuals (see Titmuss 1958: Chapter 2). This was the traditional form of providing social and welfare programs. On the other hand, fiscal and occupational welfare favored the rich over the poor. Fiscal welfare involved tax relief to higher income families. Occupational welfare included management's fringe benefit, and exemption of company contributions to occupational pensions (Titmuss 1958; Lowe 1993: 20, 285–286). Titmuss' vision was based on providing social justice. He emphasized the moral objective of the welfare state. A major goal of the welfare state, in his view, was to institutionalize a deeper sense of community and solidarity.

Antony Crosland (1964) had more ambitious goal for the welfare state. His ideal was the creation of a 'classless society' with greater equality and solidarity among the population. He believed the new democratic socialist society would avoid the 'material inefficiency of capitalism' by reducing the waste of talent and avoiding social antagonism prevalent in a capitalist society. He believed that "social resentment was a disruptive force in industrial relations and that the elimination of the objects of resentment would itself help Britain's economic performance." (Plant 1999: 104)

Crosland supported the equality of opportunity rather than the equality of outcome. He stated that "the essential thing is that every citizen should have an equal chance-that is his democratic right, but provided that the start is fair let there be maximum scope for individual self-advancement" (Crosland 1964: 137). He held the view that differential rewards might be necessary not on the basis of personal merit, but because that they would be functionally necessary to the economy. However, he modified his support for equality of opportunity: "no one deserves either so generous a reward or so severe a penalty for a quality implanted from outside and for which he can claim only a limited responsibility" (Crossland 1964: 168). In *Socialism Now*, he also pointed out that it would be unfair that "the greatest rewards would go to those with the most fortunate genetic endowment and family background" (Crosland 1974: 15).

The social democratic vision assumed economic growth and regarded the state intervention beneficent to the society and economy. While they placed equality at the heart of the agenda of socialism, they argued that growth and welfare would not be in conflict with each other. Thus the victory of socialist democracy in various European countries, paved the way for the expansion of the welfare state. In actuality, the vision that gained wide support was not at the level that the democratic socialists would desire. In most countries, the outcome was an indeterminate 'middle ground' somewhere between the conservative view of a free market economy and socialism. But this 'middle ground' increasingly moved away from the notion of a self-regulating market. As Lowe (1993: 25) has suggested "social democracy had history on its side."

The New Right Challenge to the Growth of the Welfare State

Hayek's (1978) The Road to Serfdom developed the earlier articulation of the New Right's theoretical approach. While conservative social thinkers continued to express their critique to the welfare state in the postwar earlier decades, their vision did not gather much of popular support. Their vision was integrated into the main stream economic and political thought in the late 1970s and 1980s, particularly in the USA and the UK. Finally the Reagan administration and Thatcher government both incorporated the New Right recommendations into their economic and social policies. This trend led to the revival of belief in the market and attack on welfare state programs. The main proposition of the New Right is very similar to what Hayek had stated in 1943; it is the market and not the state that guarantees political stability and freedom. This view is expressed in Margaret Thatcher's statement that the welfare state "undermines the spirit of enterprising self-reliance without which the freedom we so much treasure in Britain cannot be assured." She adds in her introduction to David Marsland's (1996) book on *Welfare or Welfare state?* that "I am glad to see that he emphasizes particularly the destructive effects on character and social behavior of welfare dependency." Marsland (1996: 223) argues that "the welfare state has proved a *cul-de-sac* in social development. It has led us nowhere, save to the ultimate dead-end of subverting and contradicting the fundamental principles of the culture which permitted its development in the first place. Like a cancer in the body politics it has spread its destructive influence through more and more of the organs of society."

The views expressed by the New Right in the late 1970s and 1980s have acquired more acceptances among a larger number of the mainstream economists (see Atkinson 1999). An increasing number of economists have criticized transfer programs for their contribution to the decline in economic performance. As Shaikh (2003: 532) states, 'the early part of the postwar period was the zenith of the welfare state as the industrialized world grew at a rate of almost 5 percent annually." During this period, economists showed little interest in the study of the welfare programs. "Social security was a technical topic left to those specializing in social policy, and it was rare for an article on the subject to appear in the *Economic Journal* or *American Economic Review*" (Atkinson 1999: 3). The interest in the study of the welfare state programs as a subject of economic research has expanded during the 1980s and 1990s. Both macroeconomists and microeconomists write about social security and welfare programs.

A major objection to the welfare state is its contribution to increasing budget deficit. Martin Feldstein a leading critique to social security has argued that the social security program in the USA has led to a 50% decline in the personal saving rate. This implies a substantial reduction in the stock of capital and the level of national income (Feldstein 1974: 922). He has further argued that unemployment insurance has promoted a higher (natural) rate of unemployment (Feldstein 1976: 956). Other economists have argued that retirement pensions encourage people to retire earlier, and public assistance to single parents discourages labor force participation (Danziger et al. 1981).

In recent years, the concerns for the contribution of welfare programs to labor market distortions and disincentive have also been raised in Europe. In Sweden, the Economics Commission chaired by Assar Lindbeck has addressed "the crisis of the Swedish model" (Atkinson 1999: 1). The welfare state has been criticized for its lack of flexibility and limited concerns for economic incentives (Lindbeck et al. 1994: 17). Their recommendation is the roll back of welfare programs, arguing that the social security system should not overburden the economy.

Another study on the European Union called "Growth and Employment" has considered the scope for European initiatives. The report prepared by Edmond Malinvaud and Jacques Dreze, while acknowledging positive functions, is critical of the welfare state. The report discusses three major shortcomings of the welfare state programs. First social insurance lends to unacceptable rigidities in the labor market function. Second, the increasing size of the public expenditures induces economic inefficiency. Third, welfare expenditures often lead to budget deficits and mounting public debts (see Atkinson 1999: 2).

A major problem with traditional microeconomic critique is its neglect of the necessary functions of the welfare state in a capitalist society. What is missing in the mainstream economic analysis is the attention to the historical fact that welfare state programs were introduced to meet certain social needs. What the welfare state has achieved is not necessarily a transfer of income from the rich to the poor. In the whole, "the welfare state is a generalizable, stable, and essential poverty reduction mechanism" (Brady 2005: 1354). But perhaps, as Haveman has stated, an important "gain from the welfare state is the universal reduction in the uncertainty faced by individuals" (Haveman 1985).

A major challenge to the overall effect of the welfare state growth on the economy is made by the public choice school. These ideas are often associated with the New Right perspective. This line of research is concerned with political factors underlying the evolution of the welfare state. Like the Marxist critique of the welfare state (see Fazeli 1996 and Mishra 1984 for a discussion of this perspective), the New Right thinkers offer a broad vision on the overall expansion and contradictions of the social expenditures. The studies have examined the demand of pressure and interest groups for the expansion of social spending programs (see Lindbeck 1985; Kristov et al. 1992).

A major theory identifying the possibility of a deep crisis in welfare capitalism is the neoconservative thesis of the "government overload." The advocates of this thesis argue that the welfare states are overloaded with tasks and responsibilities which go far beyond their capacity to deliver. This condition undermines the political stability and the legitimacy of welfare capitalism. Some of the best articulations of this view are offered in King (1975) and Brittan (1960). King explains overload in terms of the rising complexity of the role of the state in the society. The division of labor, economic growth, the increase in standards of living, and expansion of international trade motivate governments to expand the range and scale of their activities. These expectations would, however, go beyond the resources available to the government to perform such diverse and complex duties.

Brittan articulates his vision of overload in relation to the nature of the democratic process which leads to excessive expectations by the voters. In this way, the democratic process leads to the rising expectations to which political parties are obligated to respond in order to win the election. There are some striking similarities between the neoconservative overload theory and the radical vision of the "fiscal crisis of the state" (see O'Connor 1973) induced by rising demand for social expenses. There are, however, major differences between these two schools of thought on their approach to policy recommendations. The New Right seeks the solution in rolling back the social expenditures and a revival of the market as the best guarantor of economic efficiency and political stability. On the other hand, the radicals maintain that the state cannot simply reduce social expenditures, since they perform a legitimacy function for capitalism. The state is required to increase its activities in support of accumulation. But it is also required to spend more on social programs to secure legitimacy. In this process, "the more the state does…the less it can do. Demand if it does and demand if it doesn't. The state approaches the point at which its utility for reproducing social relations is nil"(Wolfe 1977: 247, 259).

The conservative macroeconomic critique of the welfare state considers the expansion of social programs as a source of budget deficit and a drag on capital accumulation. The traditional microeconomic view is concerned with the contribution of welfare programs to labor market (and particularly labor market) distortions and disincentives. The main stream microeconomic analysis would normally predict increasing "deadweight" or distortionary losses with the tax increase and the expansion of welfare expenditures. The great puzzle is that as Lindert (2003) suggests, "there is no clear net GDP cost of high tax-based social spending on GDP, despite a tradition of assuming that such costs are large." The question is why welfare state economies were able to combine a system of expanded social programs and high taxes with full employment for a long period. The traditional microeconomic view concentrates on market transactions and ignores the effect of the social institutional structure of a capitalist economy on the GDP growth and efficiency. Freeman (1995) offers a "welfare-state as-system" hypothesis to explain why extensive welfare states worked well in spite of the microeconomic prediction of market distortions and inefficiency. He argues that interactions among economic agents are more tightly linked in an advanced welfare state than in a decentralized market economy. For example in the Swedish model of the welfare state (arguably the most advanced welfare state in Europe), welfare programs reward people to work and not to remain idle. Their system of compressed wages, highly progressive taxes, and generous social and welfare programs (encouraging work) all together reduce the incentive to work long hours, promoting the choice of more leisure time and vacations. This would lead to a form of work-sharing increasing the prospects of employment for a larger population of workers.

The models of the welfare state or "varieties of capitalism" that we discussed in our introduction, more or less reflect the above alternative perspectives on the welfare state and the society. Sweden, as a "social market economy," has followed the social democratic approach, while the UK, as the most egalitarian "liberal market economy," has pursued a vision on the borderline of the liberal and social democratic traditions. Following the conservative argument one would expect an inverse correlation between, on the one hand, the level of the welfare state expansion and income equality and, on the other hand, economic growth and the opportunity of employment for the labor force.

From this point of view, the ideal model of capitalism would be something close to the 19th century forms of capitalism in Europe and America, based on the free market economy and minimum government intervention in the society. In the contemporary world, the closest to this vision of capitalism is probably the USA as the least egalitarian welfare state. American neoconservatives (or supply-siders) claim that more moderate expansion of the social programs associated with lower tax rates explain the relative American Dynamism, while the high level of European social expenditures associated with high tax rates explain their relative stagnation. The higher rate of unemployment in several European countries has led to the spread of this vision to an increasing number of "Euro-pessimists" who are advocating major cutback in taxes and social expenditures. Does the evidence support the neoconservative claim that more generous social programs and higher rates of taxation in the Nordic countries have led to major disincentive to work, lower levels of per capita income, and lower rate of economic growth? The answer, as Sachs (2006) suggests is definitely no. The evidence suggests that "the per capita income of the Nordic countries is not in any obvious sense crippled by the high social expenditure, and may indeed by higher than lower-taxed English-speaking economics" (Sachs 2006: 13). "For decades, these economies have maintained high levels of GNP per worker, low rates of poverty, high rates of innovation, and high levels of labor force participation" (Sachs 2006: 19). On the other hand, higher level of liberalization, as approximated by the Angelo-Saxon models (or "liberal market economies"), has not delivered a higher level of well being.

This paper studies the trends of social expenditures in the most egalitarian Angelo-Saxon or liberal market economy, the UK. Our empirical study is concerned with the measurement of the net social wage as a proportion of GDP. These results will enable us to find out whether in the UK, the working population families have received more benefits than what they have paid for in the form of taxes and fees. It is therefore possible to evaluate the claim of those who believe that the expansion of social programs has undermined capital accumulation and the growth of the economy. Moreover, the evidence presented in this study will provide us with an empirical foundation to determine whether the expansion of social expenditures and social transfer payments have led to the "fiscal crisis of the state" as some major radical social thinkers have maintained or the government "overload" as the neoconservatives have suggested. In other words, the results of this study will equip us with the analytical tools to evaluate the possible macroeconomic or overall effect of the welfare state development on economic performance.

Methodology of the Empirical Study

The traditional studies on the redistributional activities of the state have been concerned with the effects of the state expenditures and taxes on different income groups. These studies address "vertical redistribution," the redistribution of income between higher and lower income groups. Our study, on the other hand, is concerned with the overall benefits received and taxes paid by the working population. It will enable us to find out whether the working population as a whole has received a net gain from the state provision of social services and public goods. This study will, then, provide us with the empirical foundation to determine whether there has been any net transfer of income between social classes, particularly between capital and labor. This line of study is more consistent with the major role of the welfare state in the capitalist societies. The goal of the welfare state has been to provide the working population access to resources alongside or instead of income from employment through social policy, including social services, transfer payments and public goods.

There has been a second set of studies concerned with the distributional impact on classes. These studies include Bowles and Gintis (1982) and Anwar Shaikh (1980) for the USA, and Ian Gough (1979) for the UK. We apply the methodology originally developed in Shaikh (1980) and subsequently refined in Shaikh and Tonak (1994) and also applied and adjusted to the case of the UK in Fazeli (1996). It is this methodology that we intend to use in this study with some refinements in order to make it compatible to the new categorization of the national accounts.

In the following, we briefly outline the main elements of the methodology adopted in our study. In contrast to Bowles and Gintis who estimate the "citizen wage" for a typical family of four with an average production worker receiving an average earning, we consider the total benefits received by all wage-earners and the aggregate taxes paid by them. Thus, the net aggregate benefit or tax depends on the amount of benefits received and taxes paid by the whole population of working families.

We call the benefits received by the working population from state expenditures "social benefits" or "social wage." This includes both benefits in cash and in kind. The difference between social benefits and taxes paid by the working populations is a net transfer which we identify as "net social wage." In order to determine whether the amount of net social wage has been economically significant, we study the trend of the "net social wage ratio" which is net social wage as a proportion of GDP.

Classification of State Expenditures

We may identify three categories of state expenditures based on their contribution to social wage, or benefits received by worker. First category consists of those which lead to direct payment of cash benefits and subsidies in cash or kind. This group includes transfer payments whose role is to maintain income for phases of unemployment or underemployment in the life cycle of the working class families. This category includes social security, public assistance and welfare supporting income maintenance programs as well as maternity, old age, widowhood, and cases of incapacity in employment such as sickness, injuries, invalidity, and unemployment.

We assume that Social Security is entirely received by the working population families. The inclusion of Public Assistance and Welfare as the share of the working class in social benefits depends on who receives them and how we define the working class. A large portion of these benefits may be received by the poor who may remain separated from the active labor force. It is difficult to identify which exact proportion may be received by active members of the labor force and which proportion by those who are separated from the labor force. We will, however, adopt a broader concept of the working class that includes both the active labor force and the poor who, in large part, may remain separated from the labor force for a long period of time.

The second category includes the public provision of goods and services such as Education, Health Services, Recreation, culture and religion, Environmental Protection, and Public or Assisted Housing. It is reasonable to assume that the major part of the public housing expenditure is allocated to the working class families. We may consider two possible methods for the estimation of the share of the working class in health benefits. The first one is to assume that the working class share is proportional the proportion of the working class population in the whole population. This is an appropriate assumption if can assume "universal" access to health services by all citizens. Various studies have shown that the poor working class families have a lower level of access to health services than the more well to do members of the middle or upper milled class families. Therefore we adopt the second option first introduced in Shaikh (1980). We assume that the working population's share in the total health expenditures is proportional to "labor share." Labor share is defined as the proportion of the total labor income (compensation to employees) in net national disposable income.

A similar assumption can be made for educational services. Thus the benefits received by the working population from the state expenditures on education is assumed to be proportional to "labor share" or the share of the labor income in net national disposable income. This is because studies on the delivery of education services often show that the children of higher income families have access to better schools and stay longer in schools.

The third category consists of Public Utilities, Transportation, Communication, Public Roads, Sanitary Services and Street Lighting. These are public goods and services that are not the direct product of social policy. These should be considered as public consumption in general and the workers' share in them is estimated by multiplying their total value by the share of total labor income to net national disposable income (labor share).

The last group is comprised of two types of expenditures. The first includes Administration, Legislative and Judicial Activities, International Affairs, National Defense, Public Safety, Space, and Veteran Benefits. These are state expenses for reproducing and maintaining the system itself (Semmler 1982). The second type consists of Trade, Industry, Agriculture, Regulation and Services, Net Interest, and Others (unallocable). This set benefits corporations, small business, farmers and higher income households. We exclude both groups from labor income and consumption (Shaikh and Tonak 1994: 357).

Classification of Taxes

We classify taxes into three groups. The first group is comprised of those taxes which are paid by workers. This group includes taxes on individuals or households, payment by households for licenses, taxes on lotteries, gambling and betting, and taxes on insurance premiums. The share of labor in these taxes (taxes on wage and salaries) is assumed to be proportional to "labor share" or the share of total labor income in net national disposable income.

The other component of this group is social security and payroll taxes. We assume that the working population pays the entire social taxes. We count both Employers' and Employees' contributions for Social Insurance as labor taxes. This is because both are costs of capitalists in hiring workers.

The second group consists of taxes on capital and corporations. It includes property taxes (primarily on homes) the share of which is estimated. The share of labor in these taxes is assumed to be proportional to "labor share" or the share of total labor income in net national disposable income. The other component of this group is comprised of those taxes which are assumed not to be paid by workers. This group includes estate and gift taxes, tax on profit, and capital gain tax. Thus, the share of labor in these taxes is assumed to be zero. The third group includes taxes on production and imports. Since, we count only the direct incidence of taxes, we assume no labor share for these taxes. This is consistent with the classical tradition in which the level of wages is based on what constitutes a socially acceptable level of subsistence for the working population. The net transfer or net social wage is the difference between the total benefits received by workers from all categories of the state expenditures and the share of labor in all tax categories.

For the empirical research, we will primarily use the most recent edition of the OECD National Accounts as well as the national income accounts, statistical abstracts, and other related data sources for the UK.

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The Results and Implications of the Empirical Study

What is interesting is that, in spite of the challenge of the new right to the welfare state, the net social wage ratio (the share of net social wage in GDP) has remained relatively stable during the 1980s and has increased in the subsequent decade. Net social wage absorbed about 6 percent of the GDP in both 1980 and 1990. It did, however, increase during 1990s up to its peak of 11% in 1993 and 1994. While, the net social wage ratio has slightly declined in the subsequent years, it has remained above its level during the 1980s when the conservatives ruled the British government (see Fazeli 1996, Appendix I, Tables 1a and 1b for 1980; and Figs. 3 and 5 in Appendix for other years).

The empirical results show that the rise of the social wage ratio (the social wage as the percentage of GDP) has contributed to the increase of the net social wage in the post-1990 era (see Fig. 3 in Appendix). What is interesting is that in the post Thatcherite Britain the share of taxes paid by the British working population in GDP has remained stable and has even declined slightly in some years (see Fig. 3 in Appendix). The facts are, thus, not consistent with the conservative rhetoric of cutting and keeping taxes down. What has contributed to the increase in the net social wage ratio is the rise in social wage (benefits received by workers and their families from the state expenditures) as a percentage of GDP. However, the growth of net social wage ratio has not necessarily resulted in any improvement in the level of social benefits and services received by the working population, since the rate of unemployment has also increased in the same period (see Fig. 8 in Appendix). The rising cost of social protection programs has been mostly financed by a larger budget deficit (see Fig. 7 in Appendix) rather than higher taxes on the working population who could not afford to pay in a period of economic slow-down.

Other studies on social wage have often concentrated on the expenditure side and have offered a narrower notion of social wage. They do, however, confirm that the social wage has increased substantially during the 1990s and the 2000s. Sefton (2002) indicates that the overall level of the social wage increased about 30% in real terms between 1979 and 2001. Lower income groups received a larger share of additional benefits than higher income groups. Thus the distribution of social wage became more pro-poor over the period. In Sefton's study, social wage includes the state expenditure on health, education, housing, and personal social services. In our study, we consider the overall benefits received by the working population due to all state expenditures.

Sefton (2002) has indicated that demographic changes have, in fact, reduced the overall pressure on welfare services. But the saving on education due to a smaller child population has more than compensated for increased health expenditure for an aging population. Sefton's study covers the changes between 1979 and 2001. Our study shows that between 1990 and 2003, the state expenditure on health as a percentage of GDP has slightly increased, from about 4.5% to.5.5%. The share of the state expenditures on education has increased from about 5.0% to 7.0%. Sefton's argument is not quite consistent with the UK National Income and Expenditure account of the trend of education and health expenditures in this period. The saving on education due to a smaller child population may have slowed down the increase in education expenditure, but it has not reduced it. We should note that, the overall share of social wage in GDP has increased faster than the share of education in GDP.

As we indicated in the introduction, Pontusson's typology identifies the UK along with other Anglo-Saxon countries of the USA, Canada, Australia, Ireland, and New Zeeland as a liberal market economy. The recent evidence shows that the UK offers a more generous social spending program than other LMEs. The UK's social spending was 21.5% of GDP as compared with the USA in which the volume of social spending reached 14.6% of the GDP. SMEs spent a larger proportion of their GDP on public social spending. Denmark and Sweden ranked the highest in terms of social spending with 27.7% of GDP for Denmark and 25.5% for Sweden (Pontusson 2005: Table 2.2). Pontusson does not clarify what categories are included in his item of "public social spending." Our study shows that transfer payments in the UK have increased from 14 percent of GDP in 1990 to above 16% of GDP in 2003. Social Expenditures, including education, health, environmental protection, housing, recreation, culture and religion, have increased from 14% of GDP to 16% of GDP. Thus, the UK spends a larger proportion of her GDP on social spending than any other LMEs and their social expenditures come close to some SMEs. The second conclusion from the evidence is that the UK's social spending has increased in the last decade during the labor government rule.

Our study is concerned with the impact of the state social policy on the working population as a whole. This study provides a basis to evaluate whether the working population has received a net benefit (benefit minus taxes) for the overall state expenditures. It does not, however, address the income redistribution among different income brackets. Pontusson (2005: Table 3.2) provides a picture of variation in the level of income inequality among OECD countries as well as its change from the early 1980s to the 1990s. The analysis of this evidence leads to two major implications. The UK was the most egalitarian LME in the early 1980s. It was, however, more inegalitarian than the least egalitarian SMEs (The Netherlands). This was still true in the late 1990's both in terms of income equality and the level of social spending. But during this period, Gini Coefficient for the UK has substantially increased, from 27.0 in 1979 to 34.5 in 2000. (Luxemburg Income Study 2004) The British welfare state has remained the most egalitarian among the LMEs in terms of the social spending. The Gini Coefficient is, however, higher than all LMEs except for the USA.

In fact, the Gini Coefficient has increased in all OECD countries except in the Netherlands and Ireland in which it has slightly declined. But no country has experienced such a large increase in Gini Coefficient as the UK. In terms of rising inequality, the second in the rank are the United States and Sweden (from 30.1 to 36.8 in the USA and from 19.7 to 25.2 in Sweden). In spite of this sharp increase in inequality, Sweden remains as one of the countries with the most egalitarian income distribution along with the Netherlands, Norway, Finland, Denmark, and Germany.

A larger Gini Coefficient is not necessarily reflective of the inegalitarian welfare and social spending. The rise of disposable income inequality in the last two decades may be attributed to a cutback in welfare expenditures, regressive tax reforms, aging of the population, booming stock markets, and particularly inegalitarian labor market dynamics. Gini Coefficients for working-age household gross earnings have substantially increased in all OECD countries during the 1979–2000 period except for the Netherlands in which it has declined from 38.3 to 34.1 and Switzerland in which it has slightly increased from 31.5 to 32.7. But again no other OECD country has experienced such substantial increase in the working-age households Gini Coefficient as the UK, 12.4 points increases from 33.2 to 45.6 (Pontusson, Table 3.3). In fact inequality in gross earnings among working-age households has been recently the highest in the UK among all OECD countries. The USA that experienced the highest level of income inequality for gross earnings in the late 1970s is now ranked the second after the UK over the last decade. But, even though social wage is now more pro-poor, it comprises a smaller share of households' incomes. This is because the rising inequality in direct labor market wages or cash incomes has far exceeded the contribution of social wage to a more egalitarian income distribution. Thus, the increase in social spending and its pro-poor bias have not prevented inequality in final incomes from rising to such a pronounced extent (an increase in Gini coefficient from 27.0 to 34.5).

A third major question addressed in this study is whether the rising social expenditures have led to any major collectivization of consumption. In the UK, both social wage and net social wage as proportions of labor income increased during the first half of the 1990s, declined in the subsequent years, and once again modestly increased in the recent years (see Fig. 4 in Appendix). The earlier significant increase in social wage and net social wage can be entirely the result of the increase in the unemployment rate (see Fig. 8 in Appendix). But the recent increase in these two categories are only associated with a very mild increase in the unemployment rate. What is interesting is that the budget deficit as a percentage of GDP has followed a similar pattern as the net social wage as a percentage of GDP (Fig. 7 in Appendix). This means that except for the very recent years, the rising net social wage could not been independently responsible for the rising budget deficit. The more likely scenario is that both the growth of the net social wage and budget deficit has been the result of the slow-down of the economy and a subsequent increase in the unemployment rate that has led to a higher cost of maintaining the social programs rather than improving them. This trend may have a moderate impact on inequality resulted from labor market participation. As it appears, the poor have received some net benefits. In other words, the share of their benefit in national income has exceeded their share of tax payment in national income.

Conclusion

For a long time, the conservative social thinkers have been highly critical of the expansion of the welfare state in Europe and America. This critical voice did not attract wide public attention when the Western advanced economies were growing at a desirable rate. It was during the 1970s that, with the slow-down of Western economies, the conservative criticism acquired a broader public acceptance. The rise of Reaganism in the USA and Thatcherism in Britain are the most obvious manifestation of this trend. But a more moderate version of backlash against the welfare state appeared in all OECD countries in the 1970s and 1980s. The victory of more conservative governments in some OECD countries led to a shift of policy with respect to social and welfare spending. But even the social democratic and liberal governments have retreated from their traditional commitments to egalitarian social policy and have, in recent decades, cut back welfare expenditures or at least moved to curtail the growth of social expenditures.

In spite of the conservative attack on the welfare state, the growth of social spending as a percentage of GDP has remained relatively steady in the OECD countries. As Pontusson (2005: Table 7.1) shows, between 1980 and 2001, total public spending on social programs in percent of GDP has either increased or remained the same except for the Netherlands and Ireland. The reduction in the relative size of the Dutch and Irish welfare states may reflect to a large extent the acceleration of the economic growth that may have maid it possible to maintain the social spending per capita, while reducing its share in GDP over time. On the other hand, the Swiss substantial increase of social spending as a percentage of GDP from 14.1% to 25.9 might be attributed to relatively slow rate of economic growth that required a rising share of social spending in order to maintain the level of social spending per capita.

As we indicated before, in the UK the share of both social transfer payments and social expenditures in GDP increased in the last decade. As the results of our study shows, between 1990 and 2003, social transfer payments increased by an average annual rate of 6.4%. Social expenditures increased by an average annual rate of 6.3%. On the other, the GDP increased at an average annual rate of 5.0%. This means that both transfer payments and social expenditures increased at a faster pace than GDP. Moreover, the net social wage, the difference between benefits received by the working population and taxes paid by them increased from 6.0% of GDP in 1990 to 9.0% of GDP in 2003. The average annual growth rate of net social wage during this period was about 8.2%. But the evidence does not support the neoconservative view that the increase of social expenditures is detrimental to economic growth. During this period, the British economy grew at a respectful rate and the faster increase in the overall social spending did not undermine the economic growth. As the Fig. 4 in Appendix shows, the share of social wage in labor income has initially declined from 1995 and has slightly increased in the subsequent years. This indicates a rather declining significance of the collectivization of consumption and the share of social or collective consumption in total consumption of the working population in the recent years. This is why in spite of the increase in social wage, its effect on overall income distribution has declined.

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8.2%. But the evidence does not support the neoconservative view that the increase of social expenditures is detrimental to economic growth. During this period, the British economy grew at a respectful rate and the faster increase in the overall social spending did not undermine the economic growth.

As it appears, the steady growth of the economy provided the room for the increase in social spending and net social wage over the entire period. However, the fluctuations of both social and net social wage followed the pattern of the unemployment rate, which increased in the early 1990s and declined in the subsequent years. The exception is the recent years, after 2000, during which the unemployment has continued to decline mildly, while the net social wage as a percentage of GDP has increased But as we indicated in the previous section, this increase has not been large enough to compensate for the rising income equality (as reflected in the increase of Gini Coefficient) in the pre-tax and social benefit labor income. The rise and decline of the net social wage ratio has been, more or less, matched be the rise and decline of the budget deficit (see Fig. 7 in Appendix). This is because the government has been reluctant to finance the increasing social wage with higher taxation, particularly during the years of increasing or relatively high rate of unemployment. (See Figs. 3 and 8 in Appendix) As the Fig. 4 in Appendix shows, the share of social wage in labor income has initially declined from 1995 and has slightly increased in the subsequent years. This indicates a rather declining significance of the collectivization of consumption and the share of social or collective consumption in total consumption of the working population in the recent years. This is why in spite of the increase in social wage, its effect on overall income distribution has declined.

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Appendix: Social Wage – UK

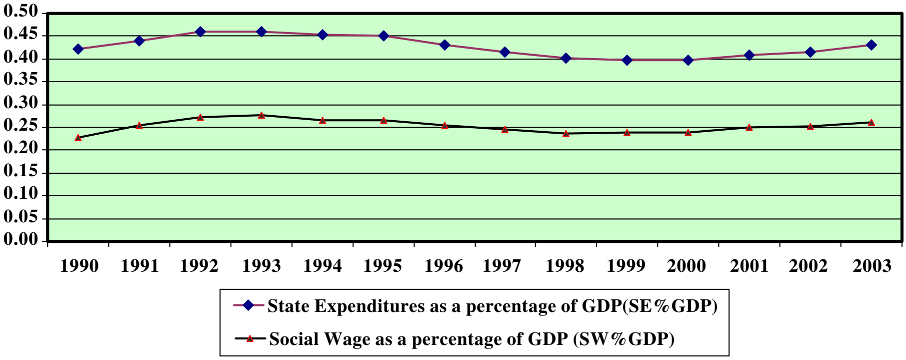

Fig. 1 Social wage and state expenditures as a percentage of GDP – the UK

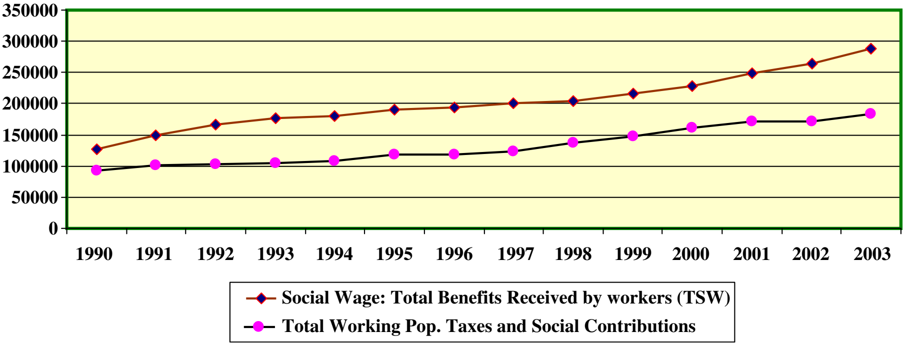

Fig. 2 Social wage received and taxes paid by the working population, The UK in (in million pounds)

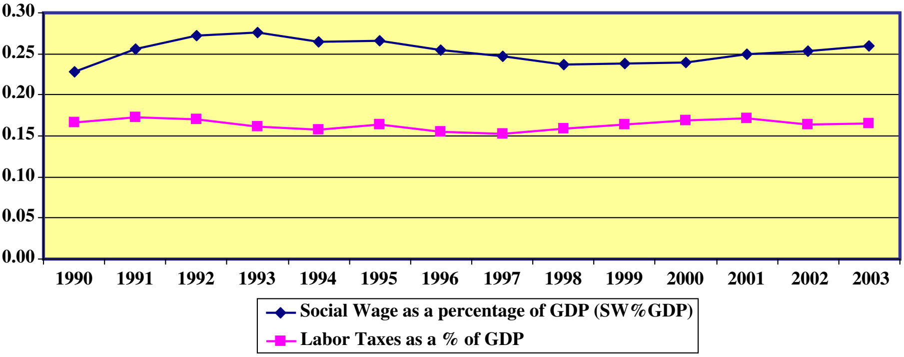

Fig. 3 Social wage and labor taxes as a percentage of GDP – the UK

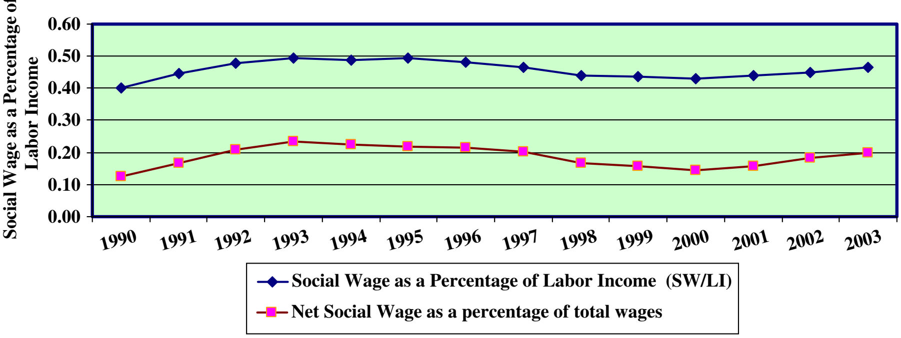

Fig. 4 Social wage as a percentage of labor income – the UK

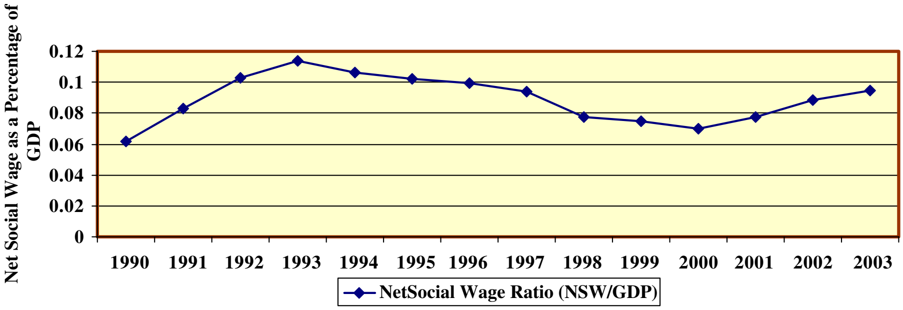

Fig. 5 Net social wage ratio (NSW/GDP) – the UK

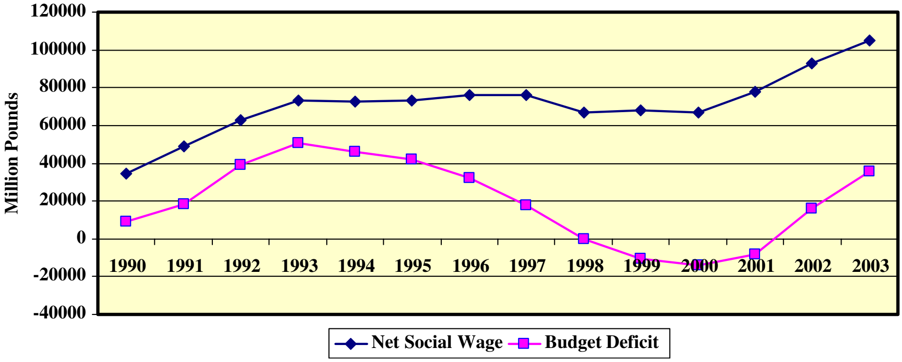

Fig. 6 Net social wage and budget deficit – the UK

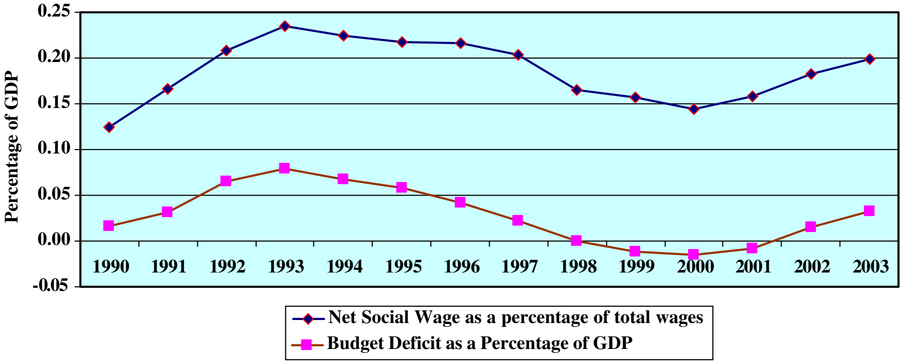

Fig. 7 Net social wage and budget deficit as a percentage of GDP – the UK

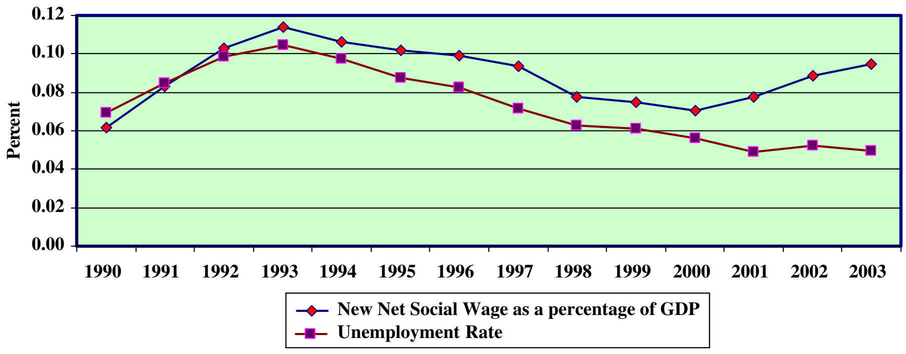

Fig. 8 Net social wage as a percentage of GDP and unemployment rate – the UK

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