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Abstract:

Social intervention by governments in liberal democracies faces two major problems. The first is that it tends to reward the majority at the expense of the weak; there is no agreed way to trade-off the claims of different groups on a limited pool of resources, so it comes down to political muscle. The second is that support for intervention depends on a continuing flow of new resources, to fix each new problem while still preserving the interests of existing clients – and as a result, subsidies and controls multiply, despite the fact that they often pursue conflicting goals. In the early days of the British welfare state these dilemmas were resolved by shared assumptions that were fundamentally illiberal, excluding some groups altogether and enabling a clear pecking order amongst the rest. By the end of the century these narratives had largely been rejected. What happened was not a collapse in the fact of collective provision (which continued to grow) but a collapse in the narrative by which it was understood. Unable to resist popular pressure to spend more, governments were also unable to build the public confidence necessary to persuade taxpayers to pay for what they wanted. The easiest course of action was to give in to vested interests; to fund as much as possible by borrowing, on and off the balance sheet; and once the money started to run out, to give in to the most powerful groups, and to pay proportionately less attention to the less vocal.

“Bismark as a non-liberal could do what the liberal democracies found and still find hard: to see the state as the guarantor of justice for the poor.”¹

Social intervention by governments in liberal democracies faces two major problems. The first is that it tends to reward the majority at the expense of the weak; there is no agreed way to trade-off the claims of different groups on a limited pool of resources, so it comes down to political muscle. The second is that support for intervention depends on a continuing flow of new resources, to fix each new problem while still preserving the interests of existing clients – and as a result, subsidies and controls multiply, despite the fact that they often pursue conflicting goals.

In the last quarter of the twentieth century there was a widespread perception that the British welfare state was facing a crisis. It was no longer ‘the envy of the world’, but came to be seen as under-funded, too big to be sustained, and too bureaucratic for its own good. The sense of malaise was widespread and started early; it was taken up by Mrs Thatcher, but shared by such old-Labour politicians as Prime Minister Jim Callaghan, who pronounced in 1976:

For too long, perhaps ever since the war, we postponed facing up to fundamental choices and fundamental changes in our society and in our economy. That is what I mean when I say we have been living on borrowed time... We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting Government spending. ...[That] option no longer exists, and that in so far as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step... I part company with those who believe we can rely indefinitely on foreign borrowing to provide for greater social expenditure, a better welfare service, better hospitals, better education, the renewal of our inner cities and so on. In the end these things, comrades, are only provided by our own efforts.²

New Labour, elected in 1997, represented the culmination of these doubts about the old social democratic model, and an attempt to create a new basis for government action.

To understand why a sense of crisis developed, we need to recognise the factors that allowed the British welfare state to emerge in the first place, and which then slowly eroded over the course of the next forty years.

The decade after 1945, when the modern British welfare state was created, was an era of useful self-delusion. The project relied on a series of taken-for-granted assumptions that enabled welfare resources to be rationed, without it even being evident that this was happening. These assumptions excluded the claims of some of those in greatest need, and focused attention on the priorities of the ‘respectable’ working class. As a result, the benefits of the system flowed very largely to those creating it – especially to the social groups, such as skilled working men, that formed the base of the British Labour Party. A sincere rhetoric of universalism sat on top of a base of quite selective benefit provision. The needs of the ‘rough’, or of those such as single mothers and the (very few) immigrants, were simply invisible.

How did this come about? The answer lies in four features of British life at that time.

First, Britain remained a profoundly deferential society – not in terms of relations between the social classes (which could often be deeply hostile), but because at every level within communities there was a tradition of accepting the decisions made by their leaders. These leaders might be dukes sitting on their local county council; or trades unions officials at the Labour Party conference. In either case, they expected to be listened to. These traditions were profoundly ingrained in habit; for example newly elected Labour councillors on Sheffield City Council were expected to remain silent for several years. The practical benefit of deference was that when it came to decisions that were clearly a matter of judgement, then the decisions that were taken would be likely to be accepted. The different tribes that made up British society were often hostile to one another, but they did usually trust their tribal chiefs. One reason for this was that large numbers of people lived where they had been born; many lived close to their places of work; and many worked alongside their neighbours. This frequent contact helped people to know and judge one another.

Tiny social signals were enough to mark people as outsiders – (‘no brown shoes in London’ if you were a gentleman, no drinking a pint of bitter out of a straight glass in a working men’s club). This was just as true for people working as stockbrokers as for charge-hands in a steel mill. Many élite groups had been at the same boarding schools and were interrelated by marriage; the cost of social ostracism for them could be exclusion from both professional and social life. Living next door to people on the same shift in a colliery made contacts even more intense. So people could build reputations; if they cheated they would be likely to be noticed; and the consequences for betrayal would be serious.

People trusted their leaders both because it was likely that the leaders, sharing their values, would make the sorts of decisions that they approved of, and because leaders who did not do so would often be found out. These views were often combined with

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3 It is worth noticing that many of Labour’s national leaders also came from these boarding schools, and shared some of the moral assumptions of their alumni.
censoriousness, based on the ideas of self-reliance and effort, and restrictive sexual morality. Moralising formed the basis of innumerable gradations in the working classes, especially between the ‘rough’ and the ‘respectable’; but the middle classes could be prigs as well.

Secondly, conflicts of interest were cloaked for a while by an optimistic belief in science; political decisions (and decisions by authoritarian leaders) were re-defined as expert judgments. The belief in rational planning was strongest on the political left, but went way beyond it. The 1930s seemed to many people to show the chaotic consequences of competition. More than that, the experience of scientific progress seemed to show possibility of a better way of improving society. An influential Penguin book, Modern Architecture (1940), said:

the production of such things as these in factories, according to standard patterns, should bring about a high-quality design, because it enables the collective experience of designers to be pooled. Instead of each individual craftsman having to start from the beginning, making his own experiments and mistakes, each new design can build on the experience of previous ones. It is by this process of gradual improvement that the design of aeroplanes and motorcars is perfected and this is what architecture can adopt from their example.4

Enthusiasm for planning was strongest amongst those who had the capacity themselves to be planners. The second half of the 19th century had seen a substantial growth in the professional competence of the civil service (and in the broader policy apparatus). This network expanded during the First World War, held steady in the interwar years, and exploded in the course of the Second. Wartime planning worked much less well than was thought. But the country had survived; to insiders, things seemed to have gone surprisingly well. A return to the unplanned chaos of markets seemed self evidently crazy. ‘Progress’ was a key word. It had at its core the vision of benevolent experts making decisions on behalf of a respectful people; an aristocratic system, though an aristocracy of talent and merit, not of birth. Labour MP Douglas Jay (educated at Winchester and New College Oxford, and later a Fellow of All Souls) wrote:

In the case of nutrition and health, just as in the case of education, the gentleman in Whitehall really does know better what is good for people than the people know themselves.5

This was Platonism in action – First-Class minds, from First-Class Universities, benevolently looking after the rest of us, in a First-Class way. At its best, this faith in the wise could be enlightened. Keynes embodied it not only in his idea of economic management, but also in in his creation of the Arts Council. Another exemplar was Lord Reith, of the BBC. At a less exalted level it also animated many civil servants, most town and country planners, many teachers and doctors.

At its worst, this world-view shaded into eugenics, and other doubtful schemes of social improvement. R.H. Tawney once reported:

Beatrice Webb, once froze my blood by remarking casually that what she most desired was to establish for the benefit of her long-suffering fellow countrymen what she called 'a regimen of mental and moral hygiene'.

It was often linked to a national efficiency view, that rejected the waste of a society in which many people were sick, though they could be cured, and in which many people were ignorant, though they could be educated. Both the case for abolishing the 11+, and the case for the expansion of university education, rested on the idea of rational management of education to avoid such wasted talent. These planners had some surprising allies. To many businesses, the lesson of the 1930s had been the need to coordinate. Managed competition and cartels were seen as sensible responses to increased international competition, and indeed to the apparent success of Soviet planning. Britain's old industries, that had made it the world’s leading manufacturing power, faced increasing challenges; since they were highly fragmented and bound together by network effects, it was simultaneously essential, and impossible, for them to reform. Planning seemed to offer a way out. Until the early 1970s, these ideas had seductive appeal right across the political spectrum. The Conservatives under Harold Macmillan and Edward Heath differed from the Labour Party under Harold Wilson only in the degree of their enthusiasm for it. Even later advocates of free markets, such as the Conservative intellectual Sir Keith Joseph, were caught up in this enthusiasm. A newspaper report in 1962 said:

using a spectacular breakthrough in factory construction of houses, Sir Keith plans to have house building going at two or three, perhaps even four times the present rate in just over two years time. This particularly applies to slum clearance. It will be the greatest attack ever mounted by a British government on the slums. ... the new breakthrough with which Sir Keith electrified the conference is [sic] a combination of a French system of building entire rooms in a factory. But to make it work, it will be necessary to have large orders ... the keystone of the new plan is that every firm, whether large or small, should be fully employed. The construction industries program will be analyzed so that the ministry knows exactly what unused capacity them may be in any area.

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7 The move of the founders of the Fabian Society, Beatrice and Sidney Webb, into more or less uncritical admiration of Stalin owed less to Marxism than to their love for planning and the attraction of an ordered society. See Alan J. Kidd, 'The State and Moral Progress: The Webbs' Case for Social Reform C. 1905 to 1940', *Twentieth Century Brit Hist*, 7/2 (January 1, 1996 1996), 189-205.


10 *Sheffield Telegraph* 11th October, 1962.
Outstanding graduates were attracted into the planning departments of giant companies such as Shell and ICI. Keynesian economists in the Treasury sought to manage employment and output. Even George Orwell (normally sceptical of attempts to boss people about) relished the idea of technically competent experts sweeping away the complacency of his Etonian contemporaries. England, he said, was ‘like a family’ but with the wrong people in charge.\textsuperscript{11}

While it lasted, this pervasive optimism about the prospects of expert reasoning provided a crucial emotional foundation for the post-war welfare state. Experts knew best – and they could be trusted to make good decisions, because they were experts. In education, their views meant that even many Labour councils had no real desire to extend grammar school education beyond the 25\% or so of children to whom it was targeted; there were reckoned to be limited numbers of jobs suitable to those with this sort of education, and limited numbers of children with the intellectual capacity to benefit from it.\textsuperscript{12} Health resources were rationed by the expert opinions of doctors; housing by the idea that it should be offered to ‘suitable’ tenants as judged by expert housing visitors; and so on. What was more, those same experts could be trusted to plan for the future, so that if there was no jam today there was certainly a good chance of jam tomorrow. For a while, it seemed reasonable to form an orderly queue, and wait (though by the 1950s, patience at the back of the queue was wearing thin).\textsuperscript{13} There was considerable over-optimism about how quickly decisions, once agreed on, could be put into effect; and massive under-estimation of the cussedness of reality.

Thirdly, conflicts about priorities were reduced because even when there was not agreement on who should go to the front of the queue, there was considerable agreement about who should go to the back (and queues, in general, were thought to be fair). The first step was to exclude some people altogether. The next step was to have an agreed order of merit – which often rewarded long-standing community membership. For example, in 1949 one inner-London council said in its report on housing:

> In 1945 . . . applications from persons rendered homeless by enemy action during the war were given the first priority. Subsequently the waiting list was extended to include young married couples who were

\textsuperscript{11} He wrote: ”An English Socialist government will transform the nation from top to bottom, but it will still bear all over it the unmistakable marks of our own civilization It will not be doctrinaire, nor even logical. It will abolish the House of Lords, but quite probably will not abolish the Monarchy. . . .It will not set up any explicit class dictatorship. It will group itself round the old Labour Party and its mass following will be in the trade unions, but it will draw into it most of the middle class and many of the younger sons of the bourgeoisie. Most of its directing brains will come from the new indeterminate class of skilled workers, technical experts, airmen, scientists, architects and journalists, the people who feel at home in the radio and ferro-concrete age. But it will never lose touch with the tradition of compromise and the belief in a law that is above the State….. It will show a power of assimilating the past which will shock foreign observers and sometimes make them doubt whether any revolution has happened.” George Orwell, \textit{The Lion and the Unicorn: Socialism and the English Genius} (London, 1941) p.126.

\textsuperscript{12} And if there were questions about which specific children should benefit, the opinions of teachers and education experts helped solve that rationing problem too.

\textsuperscript{13} Joe Moran, ‘Queuing up in Post-War Britain’, \textit{Twentieth Century British History}, 16/3 (2005), 283-305.
unable to set up a separate home for themselves, applications supported by medical evidence, and families living in overcrowded conditions. The first condition which must be met before a housing application can be considered is the establishment of a residential qualification in this Borough on 1st September 1939. A refusal of accommodation frequently results in an applicant being placed at the bottom of the Waiting List.14

The idea of ‘fair play’, and of solidarity to other working class people, was central.15 Working-class culture was deeply hostile to individual social mobility, and to personal ambition; by extension, it was hostile to the expression of individual preferences. Conversations tended to repetitive, and to avoid discussion of abstract issues; the point was to emphasise shared experience and build solidarity, not to rock the boat.16 Thus, it was often felt that services should be provided in the same way to all; rows of identically coloured front doors, rows of school desks, rows of regimented flowers in the municipal park (‘No Ball Games’), rows of neatly starched hospital beds. The most prominent advocates of such views were often trades unionists, or the leaders of the Labour councils in industrial cities.17 These leaders could ultimately shape the direction taken by the Labour party, and especially the management of the cities that the party controlled – since few Labour intellectuals had much input into the machine politics of city government. There were severe limits on the extent to which they would support egalitarian social policies; for example, maintaining ‘differentials’ between workers was a key objective of many unions, and they were often opposed to women in the workplace who were doing “men’s jobs”. The best spokesman for their worldview was the Daily Mirror – robust, anti-Communist, patriotic, funny, and ultimately optimistic about the common sense of working people.

Last, but importantly, the possibility of conflict was obscured by an optimistic humanitarian view, linked to the traditions of English Christian Socialism, that stressed the need to treat people as worth-while individuals, and assumed benevolence rather than competition as natural. This view was widely shared by English people from a variety of backgrounds. In the upper-middle classes it was associated with the moral values taught in the public schools (as exemplified by Thomas Arnold’s Rugby), and in Oxford at Jowett’s Balliol; the best aspects of the gentlemanly ideal.18 But the

14 Southwark Local Studies Library 301.543, Bermondsey Borough Council, A report on the work of the Council in connection with the Improvement of Housing in Bermondsey, 1949
15 Ferdynand Zweig and C. A. Mace, The British Worker (Harmondsworth, 1952) pp.125-9, 175-185
16 Richard Hoggart, The Uses of Literacy (Harmondsworth, 1962), pp.16-42
17 For example people such as Ernest Bevin – general secretary of the Transport and General Workers’ Union from 1922 to 1940, Minister of Labour in the wartime coalition government, and later Foreign Secretary, a stalwart champion of workers’ rights, and former Baptist lay preacher, a fierce opponent of appeasement with Hitler, and one of the creators of NATO; or Herbert Morrison, the highly effective city-boss of the London County Council in the 1930s, who became Home Secretary during the War, and Foreign Secretary after Bevin (who was also Peter Mandelson’s grandfather).
18 Between 1832 and 1914, 94% of Balliol graduates went into government service or the learned professions, and almost none into business (Perkin, Harold, The Rise of Professional Society. England since 1880 (London, 1989) pp 369-70 quoted in Leighton, Denys The Germany Movement: TH Green, Religion and Political Argument in Victorian Britain (Charlottesville, 2004). For the roots of Christian engagement with social issues, via Gladstonian liberalism, see idem p.261ff. An emblematic Rugby figure was Thomas Hughes,
approach was just as strong amongst working class groups, brought up in chapels and churches, with a reverence for education, self-improvement and fair play. Ruskin was a towering influence on both groups; but so was sport.19

Capitalism was deprecated because it did not offer equal respect to all; it treated people badly, and brought out the worst and most underhand aspects of their nature. The two most prominent voices speaking for this tradition in the inter-war world were close friends who first met on the railway platform on their way to Rugby School - the economic historian R.H. Tawney (who became the brother-in-law or Lord Beveridge), and the wartime Archbishop of Canterbury, William Temple. Tawney put the case for socialist humanitarianism:

if men are to respect each other for what they are, they must cease to respect each other for what they own.20

The impact of public-school socialism went beyond the ranks of intellectuals. Labour’s post-war Prime Minister Clement Atlee was educated at a Haileybury, a school that maintained (as did so many of them) a ‘settlement’ in the East End of London; he was converted to socialism by reading Ruskin and by the poverty he saw when working as its manager (though he remained devoted to his old school).21 Hugh Dalton (his Chancellor) was converted to socialism at Eton, and at Cambridge became close friends with the poet Rupert Brooke, an early Fabian (and another Rugbeian).22

Amongst working class leaders, especially of the cities, there was a similar ethical drive. Typical were figures such as J.H. Bingham, leader of Sheffield Council in 1946, who was a Methodist Lay Preacher23 - and forty years later, in the same city, David Blunkett (albeit rising to power in an uneasy alliance with the Marxist left) who met his first wife at a Methodist discussion group.

Even traditional Tories shared some of the core humanitarian values – of the organic nature of society, and the duty of the rich and powerful to protect and care for those who were less competent. The key phrase for this group was "one nation". For all of

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19 A moving picture of this world is given in Jonathan Rose, The Intellectual Life of the British Working Classes (New Haven,2002). It is said that more of the early Labour MPs in Britain had read Ruskin than had read Karl Marx.
22 Himself close friends with Geoffrey Keynes (Maynard Keynes’s brother).
these people, the assumption was that leadership meant service, and that social cohesion (not quarrels over resources) would be the natural result of a justly ordered society.

These background values – deference, faith in experts, a belief in uniform needs, shared hostility to outsiders, and optimism about human nature – solved some of the key problems that might have threatened the emerging welfare state. They made rationing seem objective, reflected widely-held community values, empowered leaders, and made dissent seem illegitimate. Their imprecision and lack of over-arching theory allowed differences of interest and conflicts of values to be glossed over or ignored; this allowed action to take place. Finally, they generated a noble, and largely unselfish, determination to improve the lot of others; an optimism about the likely consequences of action; and a blindness to the possibility of failure.

The tragedy that encompassed this generation of leaders grew directly out of these strengths. An example of this was the fate of the Labour administrations in the major British cities in the period between 1960 and 1980. The power of senior councillors insulated them from pressures which might have led them to change course. Rewarding the values and behaviour of others like themselves turned out to be inconsistent with their determination to clear the slums, since a significant minority of slum-dwellers had different values and attitudes. Asking people to wait for houses became hard to do, when the wait was sometimes as long as twenty years because the future did not arrive as easily as had been hoped.

The ideology did not accept the notion of scarcity; thus, it had no means to cope with the necessity of choice. ‘Rational’ design of houses and flats resulted in design faults being replicated on a vast scale. The assumption that people would come to share their own values once they were educated and decently housed meant that leaders were ill equipped to deal with disorder and vandalism when these emerged as a problem. The claims of organised labour (and of their own Direct Labour departments) were accepted uncritically, even when projects costs over-ran, because of faith in trades-union principles.

Above all, Old Labour leaders were unable to respond to the emergence of conflicts of interest within the local working class, to the growing empowerment of those outside their own circle, and to pressures which stressed human rights (and human need) as the basis for access to socially owned assets. Their values were based on a very restricted view of human nature, and of which individuals should be counted as a part of the ‘community’. They were unable to cope with social diversity, or individual aspiration. There was a conflict between two incompatible concepts of the good.

The moral foundations of the post-war world started to be challenged from the mid-1960s onwards. Evangelists of the new right preaching against the power of the state, and changes in fashion amongst academic economists seduced by the tractability of
rational-actor models, contributed to this growing scepticism. But they did not cause it. Disquiet was rising when Hayek was unheard of outside a narrow circle of admirers.

One key reason that the old assumptions started to collapse was that practical problems with big government started to become apparent. Badly-planned new homes, their design and construction implemented on a mass scale, fell down. Families demanded more choice, and many people on quite modest incomes bought their own homes. Rising expectations made medical care harder to deliver. Economic planning did not deliver the hoped-for growth in productivity. Affluence created a demand for more gadgets, not for self-improvement and productive leisure. Economic growth slowed down, making state services harder to pay for.

Underlying many of these practical problems, however, was an ideological struggle. What was the ‘public’ interest? And who was going to define it? It had seemed so simple in 1945; trust in authority, faith in science, a belief in planning, and optimism about the malleability of human nature had given leaders a surprisingly free hand. But deference to leaders was collapsing by the early 1960s. Satire reigned on the stage, and rock music and youth culture replaced the cosy certainties of post-war crooners. Affluence – especially amongst the young – opened up the possibility of choice. Traditional communities, in which local hierarchies had been rooted, fragmented under the impact of affluence, social mobility and urban redevelopment. Faith in ‘experts’ survived a little longer, but came under increasing challenge.

Overt struggle between different groups to get a share of the public expenditure pie had long been present in the United States. The idea of pressure groups was as old as the republic itself. Machine-based urban politics had always needed to balance the needs of competing client groups; while in the late twentieth century, in a new variant on an old theme, American community activists in the inner cities built local networks to challenge for their share of power and resources.24 The idea of checks and balances was hard-wired not just into the Constitution, but into the national psyche. It was a conflict-based system. In the UK, with its tradition of a dispassionate and élite civil service, there was no ready way to handle these conflicts (though the rise of regional nationalist parties represented one response).

At the level of individuals, rather than struggles between groups, the old order also had no way to cope with the challenges posed by the rise of the idea of rights, rather than community membership, as the basis for a claim on state resources; many rights were incommensurable, and the attempt to assert them (‘the right to health care’, the ‘right

to education’) pitted people against one another. There was no way to decide who had the legitimacy to make decisions.

“Fair” treatment was often called for – for example, in handling the claims of different groups for admission to elite universities. But fairness was an elusive concept.  

At first sight, it seems obvious what it means. We expect similar cases to be decided in similar ways, according to impartial sets of rules. But when it comes to thinking about how fairness should be applied in practical terms, the concept is slippery. The same key words (such as democracy, or social justice) mean different things to different people. People are using the same words while pulling in very different directions, and will go on doing so even when this is pointed out; arguing about how the word may legitimately be used is not just a matter of linguistic confusion, but is part of a bigger battle.

Amartya Sen gives an example of a disagreement like this; there are three children and a wooden flute. One of them has carved the flute (and has a right to the fruits of her labour); one of them is a very talented musician (and has a right to have her talents developed to the full); one of them is very poor (and will be made inexpressibly happy by this, his first plaything). To whom should it be given, in the interests of social justice?

One way of seeing the history of the first sixty years of the Welfare State is as a long struggle to take control of the definition of “fairness”. For example:

• How should education be organised? How far should the curriculum reflect a liberal-arts bias towards the development of individual potential, and how far should it seek to serve as a handmaiden to the needs of the economy? Does fairness mean that we should focus resources on those who are most deprived in order to try to bring them up to the level of everybody else? Or does it mean that each child should get roughly the same amount of money spent on it? Or does it mean that each person should be developed to the limit of her capability so that we provide outstanding facilities for outstanding students, just as we might provide the best training for the best Olympic athletes? Each of these arrangements has a decent chance of being described as fair, and yet each has profoundly different implications about where money should be spent.

• Who should get priority in access to social housing? Does fairness mean that houses should be allocated to members of the local community who have been patiently sitting on the waiting list? Or does it mean that it should be allocated to those in the greatest

25 Stephen T. Asma, Against Fairness (Chicago, 2012) launches a spirited and entertaining attack on both the usefulness and the ethical justification of public policy based around fairness; but his is a lonely voice.

26 When Max Weber wrote about the new sorts of states that were emerging in the second half of the 19th century, the idea of fairness achieved by of rule-bound decision-making lay at the heart of what he was talking about.

27 W.B. Gallie, ‘Essentially Contested Concepts’, Proceedings of the Aristotelian Society, LVI/New Series (1955/6), 167-98. They are defined as “concepts the proper use of which inevitably involves endless disputes about their proper uses on the part of their users” (p.169). For a fuller application of the idea see William E Connolly, The Terms of Political Discourse (Lexington, 1974).

personal need, no matter how recently they may have arrived? In practice, as slum clearance got under way, allocation focused on those in greatest ‘need’; but this squeezed out the ‘respectable’ working class, who had historically been the major beneficiaries of the council housing programme, eroding popular support for the whole programme. And the notion of ‘need’ then itself became contentious.

* When slum clearance happened, who was to define what houses needed to be cleared? Clearance programmes met increasing coalitions of resistance, from local working class people and from incoming gentrifiers. By the mid-1960s, many thought that the programmes were run in the interests of council direct-labour departments, and of the self-aggrandisement of councillors; faith in planners and housing experts to make ‘fair’ decisions broke down in the face of an upsurge of popular resistance.

* How should resources be rationed in health care, and who should make those decisions? How much input should patients have over their treatment? How should funding be divided between different regions of the country? Most controversially of all, how much should be spent on the elderly, since a huge proportion of health expenditure goes on people in the last 12 months of their life while the impact of that spending in terms of improving their quality-of-life may be quite limited? Fairness could go either way – saying that each person had a right to whatever medical science could offer them, or saying that resources should be concentrated where they can make the most difference.

Since the machinery of the welfare state required apparently objective criteria for decision-making, this indeterminacy undermined public faith in the system. At each stage, there was a conflict between the need to describe what was going on as if it were an objective search for truth, and the inherent ambiguity of the terms being employed.

Faced with this ambiguity, individuals set out enthusiastically to game the system so that their own characteristics matched the shifting criteria needed to get what they wanted. For example, ‘homelessness’ created automatic priority in the allocation of social housing - but by the end of the century the largest cause of ‘homelessness’ was eviction from the homes of family or friends, and could readily be manipulated. 29 Similarly, black markets in public housing, attempts by parents to manipulate educational access by buying homes in the catchment areas of good schools, and the emergence of private security firms patrolling gated communities, were all symptoms of a crisis in the idea of the public good. This did not mean that there was not real need. But personal need had to be matched to official categories of ‘need.’ This started to undermine many of the implicit moral bargains that underpinned the welfare state.

Into the ideological vacuum left by the collapse of the old social order and its certainties flowed a new intellectual fashion from America, a movement made easier by the commonalities of language and the closeness of policy élites in Britain and the United States. Taken to their extreme, its doctrines implied that welfare states should not be

29 Social Trends 2010, Figure 10.8 p.144
possible. People are essentially selfish and rational. So we can get together with other people to create collective goods – things like insurance companies, or members’ clubs. But we will only do it if we think both that people who don’t contribute won’t benefit, and that we will be able to make use of these common resources ourselves, if we need them.\(^{30}\) The broader the range of goods provided, the more uncertainty there is, and the less we should be willing to contribute.

There are also be some other sorts of things that we all need – like parks, armies, police forces and so on – which we can’t stop people benefiting from, even if they don’t pay for them. These things do end up necessarily having to be provided by governments. But they should be kept to a minimum because our governors are selfish, just like us, and so once they get control, they are likely to use resources to advance their personal interests – for example, by bureaucratic empire-building.\(^{31}\)

The theory says that bureaucrats will look after themselves, not us. What is more, there is no guarantee that their idea of what is fair and reasonable will accord with our own.

Finally, there is the problem of groups. Why should any individual or group take the lead? It is relatively easy for small groups to act together. Everyone can keep an eye on one another. But once the group gets larger, even well-intentioned individuals may reasonably feel that their own personal contribution won’t make much difference.

It is a miserable worldview in which nobody can trust anybody; worse, if some people are willing to make sacrifices for the common good, other people will simply take advantage of them. They are just suckers. So even the nice people will learn not to be nice.\(^{32}\) In fact, they will learn to take what they can from the system, just like anyone else.\(^{33}\)

This was not just a matter of fashion amongst intellectuals; it drove what came to be called the ‘new public management’ on both sides of the Atlantic – the process of liberalisation and privatisation of formerly public services, coupled with the target-driven management and strong incentives and disincentives essential in an environment in which nobody was to be trusted, and altruism was regarded as a myth. (This privatisation also had the convenient side effect of enabling states to go on spending

\(^{30}\) Cornes, Richard and Sandler, Todd *The theory of externalities, public goods, and club goods* (Cambridge, 1986).

\(^{31}\) See for example Olson, Mancur, *The rise and decline of nations: economic growth, stagflation, and social rigidities* (New Haven, 1982).

\(^{32}\) There is substantial evidence that most people are not purely self-interested. But experiments have also shown clearly that most people are willing to be altruistic only if they don’t think they will be taken advantage of. While sixty to seventy per cent of the population do have a tendency to altruistic behaviour, a substantial minority people will take without giving. Since these problems will be evident at the outset, rational people should not be motivated to put their altruism into practice.

while they failed to raise taxes, living on what former Conservative Prime Minister Harold Macmillan dismissively termed “selling the family silver”).

Other European countries had similar levels of public expenditure (and faced problems financing it, in the long term). But they did not adopt the same intellectual approach – what the French called libéralisme Anglo-Saxon – and they did not so often face the same political controversy about how public services should be delivered, or to whom.

Germany in particular provides a useful point of comparison. Bismark’s legacy was the growth throughout the twentieth century of a pensions and unemployment system that created entitlement based on the contributions paid by individuals, and retained income differentials amongst beneficiaries. This system still attracted middle class support. Until late in the twentieth century, socially-subsidised rented housing was an important tenure for a wide range of the population, and was especially important for the prosperous working class.\(^{34}\) In schooling, Germany maintained a tripartite system like that which existed in Britain before the abolition of grammar schools, but with the crucial difference that the non-academic component of the system received much more generous funding, so that selection for an ‘academic’ school (gymnasium) was by no means the only route to a good job. Like the British National Health Service, the German system offered care to all (and was thus popular across the class spectrum); but because it also was insurance-based, rather than relying on state provision, it managed to avoid some of the inflexibility of the NHS, and did not have to the same extent a split in the nature of care received by private patients and that received under the NHS.

William Beveridge was a fluent German speaker, brought up largely by his German nanny, and had made several visits to Germany to study Bismark’s reforms in the years before 1914.\(^{35}\) He explicitly accepted Bismark’s goal of using social insurance to promote social cohesion and to ward off social conflict.\(^{36}\) From 1908 he was the senior civil servant who was largely instrumental in instituting Britain’s first system of social insurance. However, by the 1940s, and Beveridge’s second (and more famous) reform of British social insurance provision, it was evident that a gradated system could not be introduced in Britain because of the existing and widespread voluntary provision of pensions and savings benefits.\(^{37}\) Beveridge was also concerned not to disincentivise private saving. Thus, despite their common basis, the two systems increasingly diverged.

Overall, Germany’s social provision served to reinforce the attachment of middling families to the welfare system, by reflecting and reinforcing their values. The price of

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\(^{36}\) Harris, J, *op.cit.* p.120 and passim.

this was that it tended to avoid redistribution, and to offer fewer benefits to outsiders who had not built up a long contributions record. By 2013, 40% of immigrant pensioners were in poverty – three times the rate of their native-born contemporaries.  

Support for social provision came under significant strain when it ceased to be a ‘club good’ providing collectively to those who had paid into it, and faced the challenge of the re-unification of prosperous West Germany with the much less prosperous East. Immigration to German society also threatened popular support for the system, for example by increasing the proportion non-German-speaking children in schools in some areas. But on the whole, state provision in Germany was simply not controversial in the way that it was in the UK. A good part of the reason for this was that there was less of a split between the people who were benefiting from the system, and those who influenced public opinion and paid into it.

In a strange paradox, however, as confidence in government action crumbled in Britain, demands for government intervention grew apace. Subsidies and transfer payments increased from 9% of British GDP in 1960 to 24% in 1996. Government current expenditure reached 47% of GDP by 2010-11. Spending on unemployment benefits, pensions and housing support increased by 27% in the first 12 years of the new century. In some parts of England, the lack of earnings from other sources meant that over 60% of all income came from government-controlled spending – both via direct employment (in things like hospitals and universities), and via income support. This pattern was even more prevalent in Wales, where it was over 60%, and Northern Ireland - where it was had reached 70% by 2006-7.

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38 http://www.dw.de/poverty-afflicts-germanys-olderguest-workers/a-16944233 consulted 20/1/2014
39 This trend was not confined to the UK – it happened all over the developed world, except in the United States and New Zealand, and it happened under both right-wing and left-wing governments.
40 Vito Tanzi and Ludger Schuknecht, Public Spending in the 20th Century: A Global Perspective (Cambridge, 2000), p.31. It was largely this figure, rather than differences expenditure on government services such as health, education and defence that accounted for the different proportions of national income that government spent in the USA and the UK.
41 Annual Abstract of Statistics Quarter 4 2011 (Released 31 January 2012), Table 23.2
42 Daily Telegraph, 16th January 2014, analysis of OECD figures. Spending on these three items increased from 18.6% of GDP to 23.7% of GDP over this period.
Table 1a: Public Spending as share of GDP, English regions, 2000-2006.44

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Table 1b: Public Spending as share of GDP, UK constituent nations, 2000-2006

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<td>Wales</td>
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<td>United Kingdom</td>
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There were also increasing demands for the state to be involved in other sectors of public life. There was a vast increase in the number of students going to largely state-funded universities. The call for land-use planning became more intense. The demand for urban and regional regeneration became sharper. Demands grew for regulation of

44 cebr Press op. cit; rounded to nearest whole percentage point
products and services, from food quality to retail banking. The financial and economic crisis of 2008-9 pushed the boundaries still further, as government was forced to nationalise most of the banking system. In distress, neither families, nor the economic system that they relied on, could be allowed to go to the wall.

But government spending was financed from 2002/3 onwards by steadily increasing amounts of government debt; unable to resist popular pressure to spend more, governments were also unable to build the public confidence necessary to persuade taxpayers to pay for what they wanted. What had happened was not a collapse in the fact of collective provision, but a collapse in the narrative by which it was understood. Each intervention created a new set of vested interests. In a liberal state, it was hard for governments to make value-based decisions, so it was hard for them to say ‘no’. The easiest course of action when choices had to be made was to give in to vested interests whenever possible; and once the money started to run out, to give in to the most vocal and powerful groups, and to pay proportionately less attention to the needs of outsiders.

Harold Carter

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