

THE WELFARE STATE IN BRITAIN

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THIS essay is based upon the two assumptions set out below :

First, that we are at the beginning of an acceleration in industrial development based upon the use of the computer which is likely to be as labour-saving in its effects as was the first main stage of industrialization based upon the steam engine. This comes after a long period in which new capital equipment has tended to be capital saving, not labour saving—an important counteracting force, acknowledged by Marx, to the Marxist economic model of polarization. This new development has already been recognized within a non-Marxist conceptual framework by James Meade in his *Efficiency, Equality and the Ownership of Capital* (1964).

Second, that the chief capital-accumulating institution in the whole capitalist world economy is now the giant trans-national company. Competition between capitals still forces the pace of accumulation; but over-production is avoided by the giant companies, firstly by their preempting of the markets of less technologically advanced companies and secondly by their increased sales to the state through **armaments**, military aid and space programmes. The trans-national company has now reached a size where it can challenge the power of all but the largest national states and is beginning to demand the protection of supranational states, as in the European Economic Community.

1. *The Theory of the State*

These changes inside capitalism resulting from the second industrial revolution and the growth of the trans-national company have led to important changes in the role of the state in the economy. The word state rather than government is deliberately retained, because what will be described and analysed in this essay will be a whole state system of institutions and other apparatus with which governments work and interact.' In view of the controversy that still surrounds the meaning of the word, it is necessary to begin by saying how the state system is conceived in what follows. First of all, the concept here developed is not of a neutral state subject to pluralist pressures. Nor, although the state system is viewed as a whole, whose parts are mutually reinforcing, is it seen as a sort of monolith. Many of **the**

state's institutions are designed precisely to contain and incorporate divergence and struggle. The forces at work in society, and particularly the social classes, are constantly shifting as technological changes require adjustments in economic relations; but they are held in capitalist society (so long as it can hold them) within a system that is determined by the requirements of the accumulation of private capital. For this reason the owners and controllers of this capital dominate the system, not through their personal motivations, but through the demands that private capital accumulation require of them. The changing nature of these demands in the transnational company and their implications for the state system will be studied in a moment.

In the classic Marxist theory of the state, it is the repressive role of the state that is given most attention. When states were chiefly concerned with the maintenance of law and order and the protection of capitalist property this was understandable. The involvement of the state has been continued in the development of capitalism, particularly outside Britain, and with the increasing interlocking of state and giant company personnel, the concept of a "state monopoly capitalism" entered Marxist orthodoxy. This concept fits easily into the formulation of Marx and Engels in the Communist Manifesto of "the executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie". But the formulation leaves many questions unanswered about the role of social democratic (Labour) governments and the growing numbers who work in the institutions which make up the state system.

Ralph Miliband's study was designed to correct this concept by his emphasis on the importance of ideology in legitimizing the dominant class and its hold over state power.³ Nicos Poulantzas has carried this emphasis further in suggesting that the ideological role is carried on through institutions that are as much a part of the state system—clubs, parties, unions, schools and mass media as the repressive apparatus of army, police and tribunals.³ It is suggested in what follows that this analysis recognizes only two parts of the state system—the repressive and ideological—and ignores an increasingly important third part. This is made up of institutions which have a conformative role, which contain, incorporate and moderate the conflicts inside capitalist society. Marx and Engels in more places perhaps than Ralph Miliband concedes, seem clearly to recognize this role.⁴

Of course it is true that when Marx and Engels thought of the state it was of "the centralized state power, originating from the days of absolute monarchy, on the European continent, with its ubiquitous organs of standing army, police, bureaucracy, clergy and judicature."⁵ This did not mean that they failed to remark, as in Marx's Eighteenth *Brumaire*, that England, the model of a purely capitalist country, had

neither a military machine nor much of a bureaucracy. In a democratic republic "wealth wields its power indirectly" according to Engels "but all the more effectively first by means of direct corruption of the officials (America), second by means of the alliance of government with the Stock Exchange ((France and America))."⁷ Universal suffrage, as in England, was in Marx's view the central instrument of repression and confusion, "gauging", in Engels' words, "the maturity of the working class."⁷

While "the actual work of the state is done behind the scenes and is carried out by the departments, the offices, and the staffs", and this time it is Lenin developing Marx's argument, "Parliament itself is given up to talk for the special purpose of fooling the 'Common People'".⁸ But Lenin writing *State and Revolution* in 1917 in a revolutionary situation was paving the way for the setting up of Soviets, the self government of the masses, as working not just talking (parliamentary) bodies.⁹ This was wholly in line with Marx's critique of the modern representative state and raises profound questions about the "Parliamentary Road to Socialism". What Marx and Engels, however, were saying about the political system under capitalism was not simply that it was part of the repressive apparatus of a dominant class, nor of purely ideological importance, not even solely as a sort of safety valve for the rising pressure of the working class.

"The state", Engels writes, "is a product of society at a particular stage of development; it is the admission that this society has involved itself in insoluble antagonisms that it is powerless to exorcise. But in order that these antagonisms, classes with conflicting economic interests, shall not consume themselves and society in fruitless struggle, a power, apparently standing above society, has become necessary to moderate the conflict and keep it within the bounds of order; and this power, arisen out of society, but placing itself about it and increasingly alienating itself from it, is the state."¹⁰

It is an essential part of Marx's analysis of the role of the state, therefore, and one to which Ralph Miliband earlier recalled our attention, to see the state not only apparently but in some respects actually "as independent from and superior to all social classes, as being the dominant force in society rather than the instrument of a dominant class."¹¹ It is not only that sections of the ruling class may be divided, while the state institutions have a continuing unity, but that there are periods according to Engels "when the warring classes so nearly attain equilibrium that the state power, ostensibly appearing as a mediator, assumes for the moment a certain independence in relation to both."¹² Engels' examples were taken from the absolute monarchies of the Seventeenth and Eighteenth Century, the Bonapartism of the First and Second Empires in France and the Bismarck

regime in Germany. Lenin adds, in quoting from Engels, the case of the Kerensky Government, "at a moment when the Soviets, thanks to the leadership of the petty bourgeois democrats, had *already* become impotent while the bourgeoisie is *not yet* strong enough to disperse them outright."¹³ This might, of course, only be a moment of time, but it might also relate to a quite extended period.

It is not, of course, being suggested here that the British working class organizations in the early 1970s have the same revolutionary conviction or structure as the Russian socialists in 1917. Their strategy in relation to state power, in any case, will need to be of different kinds according to their understanding of the state. If this is seen as a monolith which can only be toppled by forces working from outside it, either by the defeat of a state in war, as with Russia in 1917, or by a working class organized *outside* the state system, as Marx seems to have imagined it for a time, at least in the middle of the Nineteenth Century, then one strategy will be appropriate. If, however, the state is not a monolith but made up of a set of institutions designed to incorporate the class struggle, and working class organizations thus develop a dual role of acting within the state system as well as acting to replace it, then the appropriate strategy will be quite different. The assumption here is that the potential strength of the working class in Britain is such that it not only has this dual role but that a situation of dual power within the state system may be a necessary part of the transitional stage to full power. What was designed to incorporate the working classes could then become its opposite, given effective working class organization.

We are not speaking here so much of the *political* institutions upon which the strategy of the parliamentary road to Socialism was built, as of the *economic* institutions which have become crucial for working class organizations in framing a new strategy for the transition to socialism. Dual power is not envisaged as a sort of condominium any more than socialism is to be seen as a change in *power over* a given state system. The task of the working class is to begin to build an alternative to capitalism even inside the womb of the old system. This is our revision of the Marxist canon which draws from the *Communist Manifesto* the dogma that the working class has "nothing of their own to secure and fortify." Marx and Engels in fact were speaking only of property—that which "all preceding classes that got the upper hand" had first attained; the rest of the sentence makes this clear: "their mission is to destroy all previous securities for, and insurances of, individual property."¹⁴ We are not here arguing for cooperative property within private capitalism, which Marx correctly ridiculed. What we shall be arguing is that working class organizations can and will increasingly establish checks and controls ~~over~~

capitalist economic power which indeed provide them with "something of their own to secure and fortify". If this general concept is accepted, then it becomes quite crucial to study in great detail the working of the state institutions in modern society and particularly their relationship to the working of the economy. It is this detailed examination that will be attempted in this essay, first by examining the economic concept of a "Welfare" state.

2. *The Concept of Welfare Economics*

The history of welfare economics provides an excellent illustration of what we have called the conformative, as distinct from the repressive and ideological role of state institutions. In the first instance the concept was largely ideological. The phrase "The Welfare State" is claimed to have been invented by Sir Alfred Zimmern in the late thirties "in contradistinction to the 'Power State' of the dictators."¹⁵ The concept had a much longer history in economics. Alfred Marshall himself confessed in later life that he "developed a tendency to socialism which was fortified later by Mill's essays in the *Fortnightly Review* in 1879."¹⁶ Marshall, it was recently revealed, was writing for the working-class newspaper *The Beehive* in 1874 on the "Laws of Political Economy."¹⁷ While carefully distinguishing questions to be determined by the laws of the science and those which must be decided by our moral judgments, he asks "What are the exceptional cases in which the interest of traders, whether they offer for sale commodities or labour, may be in collision with the interests of society as a whole?"¹⁸ By 1879 Marshall abandoned Political Economy for Economics, but he did not stop moralizing. At the end of the famous *Principles of Economics*, first published in 1890, he is appealing for "a wider understanding of the social possibilities of economic chivalry. A devotion to public well-being on behalf of the rich . . ." Meanwhile, he sees the state as being "required to contribute generously and even lavishly to that side of the well-being of the poorer working class which they cannot easily provide for themselves; and at the same time to insist that the inside of the houses be kept clean, and fit for those who will be needed in after years to act as strong and responsible citizens."¹⁹

Marshall's reasons for abandoning political economy in favour of economics are of great interest to us. He not only wished to separate the discussion of ends and means in the interests of scientific precision but he wished to make a political point about the conflict of ends. Thus he wrote in 1879, twelve years that is after the Reform Bill :

"The nation used to be called the 'Body Politic'. So long as this word was in common use, men thought of the interests of the whole nation when they used the word 'Political'; and then 'Political Economy' served well enough

as the name for the science. But now 'political interests' generally mean the interests of only some part or parts of the nation; so that it seems best to drop the name 'Political Economy' and to speak of *Economic Science*, or more shortly, *Economics*.²¹

The political economy of J. S. Mill whose essays had reinforced Marshall's liberal socialism had been based on a distinction between the laws of production, which are determined by technical conditions, and the laws of distribution which are governed by human institutions, particularly the ownership of property, which are thus capable of reform. The ultimate failure of the marginal productivity theory of distribution to reconcile Mill's distinct laws in a general theory of product prices and factor prices led to Welfare Economics. As one writer has put it, "the economists' attempts to judge public policies in terms only of the efficiency of resource allocation given the existing distribution of income tended always to end with value judgments about changes in income distribution."²² Vilfredo Pareto, the founder of Welfare Economics, was concerned to establish a clear distinction between efficiency and equity and to widen the area of economic analysis on efficiency criteria without raising value judgments about equity. Ideologically this was of the greatest importance because the distribution of income could then be left to some such formulations as Pigou's :

"Provided that the dividend accruing to the poor is not diminished, increases in the size of the aggregate national dividend, if they occur in isolation without anything else whatever happening, must involve increases in economic welfare."²³

And later :

"Any case which increases the absolute share of that income in the hands of the poor, provided that it does not lead to a contraction in the size of the national dividend from any point of view, will in general increase economic welfare."²⁴

The question of existing property distribution is indeed raised by Pigou. Pareto's assumption, that the form of income distribution found to be current under existing laws of inheritance is in any absolute sense "necessary", is challenged.²⁵ But the possibility that efficiency (in terms of the marginal net product of labour) and equity might be in direct conflict was not raised. It was left to a later Cambridge Professor of Political Economy to raise this crucial question, and to decide that the conflict was not only possible but probable under conditions of large scale automated industrial production.²⁶

What Welfare Economics did was to concentrate economists' attention on increasing the size of the national cake within the existing market system. Even if this involved some increase in the *share* of the

poor, this could still leave the rich with a larger *slice* than before. The ground was thus laid for persuading the rich to accept Keynesian measures designed to increase the marginal propensity to consume rather than save, and thus to maintain aggregate demand for full employment. Welfare Economics concentrated attention also on the common interest of capital and labour in raising the total national product. The whole of Part III of Pigou's *Economics of Welfare* (nearly a third of the book) is concerned with "building up the machinery, through whose aid it is hoped that industrial peace may be preserved."¹⁷ Though the book was first published in 1920 much that is written in it both of "voluntary arrangements" and "coercive intervention" has a remarkably contemporary ring in 1971.¹⁸ The institution of Whitley Councils, of Industrial Courts and arbitration by non-governmental boards are commended and the conclusion reached that the interests of the national dividend will be best promoted under a system of piece-wage scales controlled by collective bargaining between Unions and employer.¹⁹

Welfare economics has had its critics, from the right and the left. Little concludes his critique by quoting Keynes' self-satisfied defence of the market (though we must not miss the last four words):

"There is no reason to suppose that the existing system seriously mis-employs the factors of production which are in use."²⁰

It has been left to Maurice Dobb to raise the crucial question of the existing distribution of income that is assumed to be given "in the market."²¹ Behind this we have already revealed lies the even more important distribution of factor ownership. In the traditional economist's view "distribution is simply a special case of price theory";²² but it makes a great deal of difference, and not only to income distribution, whether an individual has land or capital to take to the market to be priced, or only his labour; and Welfare Economics failed to relate price theory to this central fact.

Adam Smith, who first insisted on the role of the market in assuring the best allocation of resources, had, as Marx noted, no illusions in the matter.

"The person who either acquires or succeeds to a great fortune, does not necessarily acquire or succeed to any political power, either civil or military. His fortune, may, perhaps, afford him the means of acquiring both, but the mere possession of that fortune does not necessarily convey to him either. The power which that possession immediately and directly conveys to him is the power of purchasing; a certain command over all the labour or over all the produce of labour which is then in the market."²³

Marx after quoting this passage goes on :

"Capital is thus the governing power over labour and its products. The capitalist possesses this power, not on account of his personal or human qualities, but in as much as he is an *owner* of capital. His power is the *purchasing* power of his capital, which nothing can withstand. Later we shall see first how the capitalist, by means of capital, exercises his governing power over labour; then, however, we shall see the governing power of capital over the capitalist himself."³⁴

The market is thus not neutral except in a formal sense. It is only the result of the mystification of what Marx called "commodity fetishism" that a social relationship between people—capitalists and labourers—appears as an exchange of things in the market—capital and labour.³⁵ Leaving the determination of prices and the allocation of resources to the market, despite all the welfare economists' advocacy of state intervention to redistribute incomes by progressive taxation, to promote industrial peace and to increase the national dividend, still left the basic distribution of power and wealth between capital and labour unchanged. After quoting from recent studies the very small changes in the distribution of property ownership which have resulted from fifty years of welfare budgets (Table 3.1), Meade concluded that the welfare state could only lead to a more equal distribution of income through such highly progressive taxation as would "be bound to affect adversely incentives to work, save, innovate and take risks"; and even then "An unequal distribution of property means an unequal distribution of power and status even if it is prevented from causing too unequal a distribution of income."³⁶ If the effects of the welfare state on the actual distribution of wealth have been slight over the period of fifty years, this is not, of course, to say that without the welfare state the distribution of wealth might not have become even more unequal. We shall return to the redistributive effects of the current structure of taxation in a moment.

Welfare Economics, however, has had perhaps its greatest impact in recent years in raising the question of the social costs and benefits of resource allocation, if determined only by market prices. It was when competition in the market became an untenable assumption of economic behaviour that Welfare Economics was introduced to provide some guide lines for public policy without entirely abandoning the methods of analysis of economists. Welfare Economics was required not to replace but to reinforce the working of the market in the allocation of resources and the distribution of incomes. In the first place, the divergence of private and social costs and of private and social benefits could, according to Pigou, be identified and rectified by government intervention through taxes and subsidies and controls of various kinds. Pigou's famous example was the law against factory chimney pollution which has **an** increasing relevance in our **day**³⁷. Secondly,

the difficulties surrounding the comparison and conflict of individual welfare could, according to Kaldor and Hicks³⁸ (following Pareto), be reconciled by government compensation. The possibilities of legally enforceable amenity rights, with compensations for waiving them or losing them, have since been explored by Mishan.³⁹

The role of the state is here envisaged as a much more substantial one comprising repressive and conformative elements. The argument has been most fully developed by W. J. Baumol⁴⁰. Where goods, or more likely services like public parks and roads, are of such a nature that the claim on resources of one person does not reduce the resources available to others, individuals will set the market value of these claims very low. Since they hope that someone else will provide and pay for the road which they can then use, they will resent paying for a share of something that is already public. Thus "the basic argument of the present volume," says Baumol, "indicates why, without explicit regulatory intervention, the uncoordinated activities of the individuals who compose a society may fail to achieve the goals of the members of the group".⁴¹

The state is brought in by the welfare economists to ensure all those economies and correct those diseconomies that are *external* to the workings of the market. This is a major requirement and writers like Baumol and Little accept that the contribution of welfare economics is slight except "in rejecting shoddy arguments and easy fallacies".⁴² The attempt of the Welfare Economists to discover ways of bringing social and interpersonal costs and benefits into the market system, if necessary by legislation, remind one of nothing so much as Ptolemy's construction of epicycles to correct the failure of predictions based upon an earth-centred model of the solar system. Baumol, after considering the alternative to the market in forms of central planning, concludes rather weakly that "decision by any central planning group or any other body acting as allocator of resources in place of the automatic market mechanism, may not be much more successful than the market in eliminating deviations from ideal output. Indeed errors in estimation of consumers' demand may more than offset any such corrective influences".⁴³ The problem for socialists is precisely that of finding alternative ways of estimating consumers' demand to those of either centralized planning or the automatic market mechanism.

Baumol continues in the next sentence :

"Of course, it may be objected that there is maldistribution of wealth and that the market mechanism is excessively 'loaded' thereby. But this is an argument for redistribution of wealth rather than for abandonment of the market mechanism, except in so far as it is believed that a market mechanism will tend to break down for lack of incentive if too inflexible a distribution of wealth is enforced."⁴⁴

The exception is important and raises doubts about Meade's solution by wealth taxation to the problems he raised. An even more serious doubt arises concerning all attempts at redistribution of wealth, if the market itself is not only 'loaded' but continuously 'reloading itself' so to speak in the process of capital accumulation. And this is just what we shall suggest is the case. The loading mechanism has to be revealed in what follows and the effects of state intervention on this mechanism. The argument of the foregoing section is that, limited though they may be in achieving "an ideal output", Welfare state measures do confer real benefits which each individual's pursuit of his own satisfaction through the market would not have achieved. The state in assuring these benefits enforces a conformity or consensus upon all citizens about those public benefits that are to be conferred and those that are not, and about the cost that is to be paid for them. Consensus politics is then concerned with fairly minor variations in the benefits to be provided. It is not concerned with great inequalities of wealth.⁴⁶

3. *Welfare State Receipts and Expenditures*

It is necessary now to examine in detail the forms of state expenditures, to reveal what has been described here as a 'loading mechanism'. As a framework for such a study we have rejected the view of political theorists that the capitalist state is nothing more than an instrument (with repressive and ideological aspects only) for maintaining a capitalist class, and we have insisted that it is also to some extent a battle ground of the class struggle in which the conflicts of economic classes are "moderated and contained" through conformative state action. We have also rejected the view of economic theorists that welfare can be discussed without examining the distribution of property ownership and the reproduction of that distribution through the working of the market; but we have noted the important benefits that state intervention in the market may confer. It is clear from Table 3.1 that extraordinary little change in property ownership has been effected over some fifty years. Are we now to conclude that none of the **hard-won** advances in welfare, for which generations of socialists and trade unionists have struggled against such bitter opposition from the capitalist class, have been more than an ideological confidence trick—to assure "a reasonable degree of economic efficiency by the erection of social and political shock absorbers, whose function is to offset the gross inequalities and the natural insecurities of the capitalist order".⁴⁷

The quotation comes from an article by John Saville, who accepts that "the pace and tempo of social reform have been determined by the struggle of working class groups and organizations", but concludes that "the Welfare State is the 20th Century version of the Victorians'

self-help" and the only gain to the working class lies in their greater "experience and maturity". A reply to this article by Dorothy Thompson may serve to introduce a review of the actual welfare state expenditures as they have developed. For Dorothy Thompson "The real significance of the welfare services, and of the legality of Trade Unions and other working class organizations, is that these are, objectively, victories for working class values within capitalist society".⁴⁸ She distinguishes these services—"the maternity services (apart from the extra payments to insured women), the health service, the pre-school clinics, the school medical and dental services, the education system at least until the age of eighteen, as well as partially free services like the school meals . . . and others for which no payment is made by the recipient . . . provided purely on the basis of need, and not of cash payment, or even abstract conception of social value . . . as a profoundly anti-capitalist conception . . . the exact opposite of the Victorian ideal of self-help". This distinction between the free services and those based on an insurance contribution provides a starting point for our analysis as we examine the second test of these two views of the Welfare State.

Table 3.2 provides the broad historical record of the growth of public expenditure over fifty years from a level equivalent to about a sixth of the national product to a little over a half of it (nearly £20,000m. in 1968). The capital formation of the public corporations is included in this figure, but not their payments for wages and goods bought from outside their sector for current consumption. This totals another £5,000 million or 13.5 per cent of G.N.P. The social services' share in this expanded area of public expenditure has also grown over the fifty years—from about a third of the total to nearly a half. If we now distinguish in Table 3.3 those parts of the social services which are provided free or without any element of self help (in N.I. contributions, rates etc) we can certainly say that around two thirds of the total fall into this category. So, of course, do the social security supplementary benefits which are excluded and listed in the Table as 'assistance'. Excluded here also are the subsidies—to housing, food and agriculture, coal industry and transport—which can alternatively be regarded either as support for money lenders, farmers and so on, or as a part of the social service provision. Another item that might be included in the social services is the government's contribution to the redundancy fund and to industry's retraining schemes.

The evidence here suggests that the major element in the social services, despite housing rents, health service charges and payments for school fees and higher education (according to income) is that of free provision and not of insurance. Moreover, this element has been growing; and the Treasury's plans under the Labour Government for

the period up to 1973/4 envisaged this continuing. What changes will be made by the Tory Government are not yet clear but all the indications are that it is precisely the social service element that they will try to cut and 'self-help' that will be encouraged through increased payments for services. It cannot, however, be said that this was already in 1970 the trend, although the arguments for a move in this direction have for long been gaining ground among writers on the right.⁴⁹ Welfare policy in the 1970s, said one of these writers, "looks like being concerned not with deciding whether to transfer much of welfare as we have known it from state provision to private choice in markets, but how".⁵⁰ Justification for this view can be found in the wage related benefit and pension schemes introduced by the Tories in 1961 and extended by the Labour Government bills in 1969; and the latter government's continuation of the wage stop and its rejection of minimum wage legislation; in the health service charges reintroduced by Labour in 1968 and in the pressure of the British Medical Association for a two-tier health service—minimum standard free and above that according to choice (i.e. purse). Nevertheless, it needs to be repeated that the greater part of the social services still remains free in Britain in 1971 and may still be defended by militant working class action.

When we say that they are free, of course this only means that they are not paid for directly; and the second part of the argument which we are considering is that the tax structure is extremely regressive and involves therefore little or no redistribution of income. The poor pay for their own social services, it is said. Table 3.4 shows that there is some evidence for this. Taking an average household of man and wife and two children, only the bottom ten per cent are *net* beneficiaries after all taxes are paid. The break-even point comes at about £1,000 a year and the article from which the Table is taken shows that the break-even point is even lower for single adults while being higher for larger families. It is particularly striking that even those with incomes of £3,000 and over keep on average three quarters of their incomes after paying taxes.

The most regressive element in the tax structure is the National Insurance contribution. If we exclude this and the cash benefits going with it, the tax structure looks a little less regressive; but the break-even point goes rather lower and the over £3,000 a year households still keep three quarters of their income. (Table 3.6). This method of calculation eliminates the family allowance, moreover, which is paid equally to all families. The fact is that it is only at the very highest level of incomes that the tax structure becomes really progressive and at this level there are wide opportunities for tax evasion, as has frequently been pointed out.⁵¹

A balance sheet of taxes and benefits can be drawn up in another way by setting revenue and expenditure side by side according to major categories. Thus in Table 3.7 the National Insurance Account almost balances after including a sizeable government grant. The Public Corporations require heavy borrowing through the government for their capital expenditure involving interest payments of over £500 million a year. Private industry pays out in Corporation Tax and S.E.T. etc about £2,000 million a year and receives back about £1,650 million in grants and other aid. The balance of this together with Income Tax and Surtax does not quite pay for defence, external relations, law and order, administration and the Debt interest of central and local government. but is about £600 million short on a total of over £5,000 million. If we assume that the expenditure on roads is paid for out of motor duties and a small part of the hydrocarbon oils-tax, then the Taxes and Expenditure plus rates and rents almost cover the £7,000 million of social services expenditure, both capital and current, with £850 million to be found from borrowing.

With the exception of the National Insurance Fund and the Public Corporations' Accounts, none of these is, of course, a specific revenue and expenditure account, but together they provide a general picture. Can we conclude that the workers pay for their own social services—those who drink and smoke and burn petrol for those who do not? Perhaps we can, but the very large area of free services remains a fact, a bastion even of socialist conception to be defended against attack and extended in the future. In an article quoted earlier, Dorothy Wedderburn concluded :

"Welfare State legislation in capitalist society is a battleground, not only for the short term solution of immediate social problems but also for the longer term battle of ideas. The former has received much attention from the Left; the latter all too little."¹²

4. *The State in the Political Economy*

Most of contemporary argument about the expanding area of public expenditure has not in fact been about its social effects but about its economic role. Redistribution of wealth as a social objective, the extension of social provision in place of private goods and the principle of one service for all—these have all been buried beneath the argument about managing the economy with the aim of stepping up the rate of growth of output per head. This after all was the burden of the welfare economists, that so long as no one was made less well off in the process, an increase in the national dividend was the most acceptable objective of economic policy. Management has been largely concerned with maintaining aggregate demand at a high

enough level for full employment without too much associated inflation and/or unbalancing of the foreign payments account. The record in Britain has not been particularly impressive compared either with earlier periods or with other countries in this period. The level of unemployment has not been high; there have been no deep depressions; but the rate of growth of the national product at about $2\frac{1}{2}$ per cent p.a. in the 1950s and 1960s has been only a little above both that to 1913.⁶³ It must be added that output per man hour, in manufacturing at least, has been rising rather more rapidly in the 1960s—at about 3.7 per cent p.a.; but economic growth on the Continent of Europe has been at over 5 per cent p.a. since 1950.⁶⁴

What must concern us here is the form which public expenditure has taken, given these objectives of economic management, and the institutions through which it has been disbursed. It needs first to be recalled that monetary measures proved very much less effective in regulating aggregate demand than Keynes had originally expected; and governments were forced increasingly to rely on fiscal measures to influence consumption levels.⁶⁵ More recently, government spending has been used particularly in order to reinflate economic activity after a period of deflation and with a very definite eye to forthcoming national elections. For a period of six or seven years after they came to power in 1952 Conservative governments steadily cut back public spending in real terms, so that the public sector was reduced from 44.5 per cent to 40.5 per cent of the national product (See Table 3.2). Then as a lead-in to the election of 1959 public spending was stepped up in one year by £550 million, or by $6\frac{1}{2}$ per cent, when prices rose only about 1 per cent. This sum amounted to over $2\frac{1}{2}$ per cent of the national product. In 1964 the increase in government spending over the previous year was £1,100 million, i.e. a 10 per cent increase with prices rising by about $2\frac{1}{2}$ per cent. That sum amounted to 4 per cent of the national product. In 1966 the increase was nearer £2,000 million, a rise of 14 per cent with prices up by about 4 per cent. That was 6 per cent of the national product. In all these years the government party won the election. It does not need to be added that in the lead up to the 1970 election public spending was being increased by only about $3\frac{1}{2}$ per cent with prices rising by over 5 per cent. But it is an important indication of the expectations which a mainly working class electorate holds of the goods which governments are expected to deliver.

Two questions arise : the first concerns just what goods those were; the second concerns the total impact of these increased state expenditures on the political economy of British capitalism. We saw in Table 3.2 that the increases in government expenditure have been in the

social services and in economic and other services to industry. These last are listed in detail in Table 3.8. More than half of them are contained within the public sector but an important new development has been the growth of direct aid to private industry from a figure equivalent to just over 4 per cent of the national product to one nearer 7 per cent. Here it is the giant companies, which might have been expected to have adequate internal reserves, that have been making the running in their demands for state aid and state markets, and were certainly receiving most from aid under the Labour Governments' I.R.C. and Mintech programmes. Such a development had already been foreseen by the F.B.I. in its statements on Research, Regional Policy and Foreign Trade in 1952, but when the F.B.I. merged with the N.A.M., representative of the smaller firms, to form the C.B.I. in 1963, the giant company chairmen formed their own private enterprise group to lobby Governments. It is an important fact that the new Tory Minister for Trade and Industry, Mr. Davies, came from the C.B.I. stable and seems to be speaking for small business not big business in his enthusiasm for disengaging the Government from aid to lame ducks, leaving the individual to stand on his own feet without featherbedding and similar metaphorical aid, just as his colleague Mr. Carr seems to reflect the same narrow attitudes in his attempt to curb the unions by legislation rather than incorporating them à la Donovan. The division here reflects an important division in the capitalist class and cannot in all seriousness be seen, as some have done, as part of some diabolical capitalist policy of alternating concession and repression. Whatever happens to the Industrial Relations Bill no one will certainly expect to see major cuts in the 1969-70 figure of £1,700 million of aid to industry, least of all if Britain enters the Common Market; for then the cries of private industry for protection and cushioning aid will become deafening.

The £1,700 million aid to the private sector comprised nearly a tenth of all public expenditure and is equivalent to half of all private sector fixed capital formation excluding dwellings. Of course some of this aid is a subsidy to income (agricultural support) and some a subsidy to variable costs (employment premia), but it all adds to the total receipts of private industry and agriculture, from which capital formation has to come. Since the public sector of capital formation already accounts for about a half of all such capital formation, with or without the inclusion of dwellings, it is clear that the accumulative role of private capital has been greatly reduced. This can be looked at in two ways; either as a once for all process of strengthening a temporarily weakened British capitalism through state intervention, or as a continuing rescue operation which reveals the growing failure of the system to develop the technological forces at man's command. The Labour

Government planned to check the growth of its aid to industry by 1973-4—see Table 3.8. It has been one of the Conservatives' claims that they will sharply reduce the role of the state in the economy. We shall see whether they can; and if they do what destabilizing results follow.

The economic objective of this state aid to industry has been to encourage capital investment and especially in those areas, both geographical and industrial, where private industry was reluctant to invest. There were known to be unused reserves of labour in many parts of the country and there was supposed to be underutilized labour in many industries, and particularly in those that had been nationalized, where capital per man hour was low and labour was inefficiently used. Much of the money provided went to firms for doing things they would probably have done anyway and some of it was self-contradictory;⁵⁸ but in the period of savage deflation after 1966 a higher level of investment by private industry probably took place than would otherwise have occurred. Redundancy payments and the partially phased rundown of the coal industry together with the measures to stimulate economic development in the regions certainly made the process of deflation less intolerable than it might otherwise have been.

By far the greater part of the increase in state expenditure of recent years, nevertheless, has been in the social services—an increase over the decade of the Sixties from a figure of just over 18 per cent of the national product to something over 26 per cent. It is sometimes said that this is no more than a response to the increase in numbers at risk—of old people and of children on the one hand and of the unemployed on the other. In fact the growth of social security payments has not been quite as fast as the general growth, at about 6.5 per cent p.a. in real terms, of the social services as a whole (see Table 3.9). The fastest growth has been that of the building programmes—schools, hospitals, houses. Expenditure on these has been growing in the 1960s at about 8.5 per cent p.a. in real terms. Since the whole population grew by less than 1 per cent p.a., and the child population by about 2 per cent p.a. and the population of older people by 1.5 per cent p.a. there has been a real improvement in provision in these directions. It should be noted, however, that the Treasury envisaged an easing off of these rapid rates of growth in public expenditure after 1969 to something nearer 3 per cent p.a. (Table 3.9).

The result of the increases in state expenditure by both Tory and Labour governments between 1958 and 1968 was to raise the share of the National Product which passed through government hands from just over 40 per cent to over 52 per cent. This is a qualitative change almost equal to the two earlier changes in the share of the

State in the National Product—the doubling of the state's share in the first world war from 13 per cent to 27 per cent and the increase in the second world war and just after it, which raised state spending from 30 per cent to 40 per cent of the National Product. What is to be the end of this forty year process which has increased the state's involvement from just over an eighth to over a half of all national economic activity? What forces have motivated it? This increased intervention of the state—in some measure of income redistribution, in aggregate demand management and in absorbing economic surplus (especially through arms expenditure)—is generally cited as the reason for the nonfulfilment of predictions in **Marx's** economic model. Under the model the competitive drive of private capital accumulation led to a polarization process—increasingly concentrated capital at one pole, misery and insecurity of employment and wages held back by an ever replenished reserve army of unemployed created by labour saving technology at the other, with a consequent falling rate of profit and increasingly deep cyclical crises foreshadowing a breakdown of the system. The basic assumption of the model was that the system was self-regulating through the market. The growth of state intervention naturally, therefore, raised doubts about the value of the model. If, however, it has been necessary to increase steadily the share of the state in the economy in order to ensure a managed capitalism, it would rather suggest that some increasingly destabilizing or polarizing forces were indeed at work underneath. Had there been no such forces at work, a once for all level of intervention by the state should have been enough to correct the forces at work. A steadily increased level of intervention suggests a steady increase of forces to be corrected.

An alternative explanation would be the purely political demand for increased social provision, supported by the welfare economists. On this view, increased state intervention would not be economically necessary, but the result of the rising standards of consumption of goods creating a growing demand for expenditure on public services out of marginal income. There certainly is this element in the picture as we have seen it, and the demand for free social services—health, education etc—must account for a large part of the increased expenditure. It does not account for the increase in either the aid to private industry and the finance of the public corporations or the increased provision against poverty. This last provides us with an important test. Despite growing general affluence widespread poverty remains not only in the underdeveloped two thirds of the world but inside the most affluent capitalist economies themselves. This has been well attested in the United States by writers like **Kolko**,⁵⁷ **Harrington**⁵⁸ and **Ornati**⁵⁹ and can be explained by the lower levels

of state intervention than exist in Britain. But this cannot simply be the result of a relative political failure of working class demands where the general level of affluence is so much higher. It is hard to avoid the conclusion that there must be forces at work of the kind Marx suggested to generate such a polarization of wealth and poverty.

In the case of Britain the inequalities may not be so great but the evidence for an underlying polarization process would be very strong indeed if, despite the massive increases in public spending in the decade of the 60s, it were true, as is often asserted, that in terms of personal income during this period the rich got richer and the poor got poorer. The evidence was carefully documented by John Hughes for the period from 1955 to 1965.⁶⁰ This showed a much greater increase in property income than in income from employment, while transfer incomes were keeping only just ahead of employment incomes in total sum and falling behind in income per person as the number of the older population increased. Since 1965 it has to be said at once, and contrary to much received opinion on the left, that these trends have been checked—mainly by increased state spending. Table 3.10 shows the growth of transfer incomes far ahead of other incomes; and employment income at least keeping in line with property income according to Blue Book figures, and actually drawing well ahead according to the National Institute figures.

At the same time there is plenty of evidence that within the range of employment incomes the gap between the better and less well paid has been widening. The increase in salaries shown in Table 3.10 reflects an increase in the *salariat*; salaries per head barely kept up with manual earnings in the 1960s (see Table 3.11). On the other hand men's average earnings for manual work, which were already nearly double women's grew faster than women's; and inside the two sex groups the better paid increased their wages faster than the less well paid. This was not, however, true for men in manufacturing who, starting from higher levels altogether, fared better than men outside manufacturing industry; nor was it true for men or women in administrative, technical and clerical work. There the lower income weekly paid workers improved their position relative to the higher income monthly paid. The widening gap evidently occurred between the *pay* of workers in manufacturing industry and those in other industries and between relative payments inside these other industries themselves.

It is precisely the kind of gap we might expect that increasing automation with the labour-saving effects of new capital investment would generate; and to correct it seems likely to require increasing additions to state expenditure. It has much relevance to the economic role of public spending. This appears now to consist not only of managing the economy to maintain aggregate demand for full employment, not

only by more state spending and by some very modest redistribution of income, but also by protecting a bottom layer in society whose position is continuously being worsened and tends to pull down the whole level of aggregate demand. This was the problem to which Peter Townsend and Brian Abel Smith were directing attention in the early 1960s. At that time they listed between 7 and 8 million people who had incomes at or below the social security standard:⁸¹

- a. 3 million in families whose head earns a low wage; a million of these having incomes below the basic assistance rates plus rent and this being subject to a wage stop when the wage earner is unemployed;
- b. 2½ million pensioners of whom 850,000 had incomes below the basic rates;
- c. ¼ million in fatherless families; 300,000 below the basic rates;
- d. ¾ million in families with a disabled or sick father; 250,000 below the basic rates;
- e. ½ million in families with the father unemployed; 250,000 below the basic rates.

There is little doubt that some improvement had been made in these figures by 1970, although the number of unemployed had risen, and the wage stop that prevents payments of benefit beyond the level of earnings while at work still remained. The improvement was the result of increased family allowances and higher pensions and benefits, but neither had been increased to the extent that Townsend and Abel Smith believed to be required to have any major impact on the problem. The reason for the small scale of the improvement was given clearly by the responsible Labour Minister in 1967, when Conservative critics challenged his statement that the addition still left half of the children in families that would still be below the level of supplementary benefit and asked for a more discriminating allowance: "If the line were drawn, as I understand the Opposition would draw it, well above the supplementary level its disincentive effect on those below would become very marked indeed."⁸²

Beveridge's advocacy of family allowances (twenty years after they were advanced in Eleanor Rathbone's *The Disinherited Family*) was precisely designed to avoid the disincentive effect of a high rate of benefit, but Beveridge was careful enough to make clear the connection between a sufficient income during earning and a national minimum for families. What Beveridge did not envisage was the use of a wage stop in lieu of a gap between maximum benefit and minimum earnings. But the fact that benefits have been raised to this extent while earnings have remained so low provides the clearest indication of the conflict of pressures inside the capitalist system. The obvious solution—a legislated minimum wage—although firmly

advocated by Mr Wilson in the 1964 Election Campaign,⁶³ was rejected in the 1965 *National Plan* on the grounds that it "would not contribute to faster economic growth."⁶⁴ The implication of this, as of Mr Gordon Walker's remark, is that one of Pigou's propositions for Economic Welfare is being broken, that which required that productive efficiency should be increased "without the exercise of compulsion or pressure upon people to make them work more than their wishes and interests dictate."⁶⁵

And here we come to the crunch of the economic role of the Welfare State. Far from the increase in public spending having buttressed up the capitalist system ideologically as well as financially, what could be more totally destructive of the system's whole ethic and motive force than that people should deliberately choose leisure, should prefer not to work, should follow the hippies? It is this shattering rejection of their whole way of life that drives the supporters of the system to distraction when they see young people positively enjoying idleness. It is not to condone scrounging and sponging on other people's efforts to emphasize here that the demand for a decent living out of a system that can manifestly produce affluence is a revolutionary demand. Those workers who have set their wage claims at what they know could be produced, if only industry were operating at full capacity, are making the same demand. The question of organizing the industrial system so that the incentive to work is preserved remains to be solved. This is where the conformatory role of state institutions is so important and we shall return to this in the last section of this essay.

It is time to sum up what has been said here about the growing role of the state in the political economy. The main increases have been in aid to private and public industry and in free social services, especially education, health and environmental services but including also social security payments (assistance). Two possible reasons for this are considered: first, the growing political demand for public services as the need for private goods is satisfied in an affluent society; secondly, the economic necessity of increasing state intervention to offset the destabilizing and polarizing effects of private capital accumulation, especially in a second period of revolutionary labour saving inventions, equivalent to those of the first industrial revolution. To this we may add the demands of this second industrial revolution for a much better educated, if relatively much smaller, industrial working class. This provides the most powerful confirmation of Marx's general theory of the necessary correspondence of economic structure and productive forces. What has now to be considered is the effect on the traditional Marxist view of class struggle that must follow from the new economic role of the state and the vast increase

in state employees, and hangers on, at the expense of the numbers of the industrial proletariat.

State Institutions and the Class Struggle

It will not be by the very poor and the drop-outs that the welfare state is dissolved and replaced by socialism, however much these groups may reveal of its true nature. Those who work regularly, whether in industry or in state institutions, are the ones with the power because of the effects that their ceasing to work would have; and the more organized the more powerful. As the trade union movement has grown in strength, so ever greater attempts have been made to incorporate it within the framework of state institutions. Consultation and conciliation procedures have proliferated. What began with A. J. Mundella's Hosiery Board at Nottingham in 1860 was given new impetus with the Whitley Councils that followed the Whitley Report of 1917 and was most recently enshrined in the Donovan Commission recommendation that the informal factory bargains between workers and employers in British industry should be incorporated in a legislated system of industrial relations. We may note here the Webbs' comment on the rapid spread of arbitration in the 1860s, which marked the increasing recognition of trade unions by the great employers :

"As in the case of the political triumphs [the 1867 Reform Act] the men gained their point at the cost of adopting the intellectual position of their opponents. When the representatives of the employers and the delegates of the men began to meet to discuss the future scale of wages we see the sturdy leaders of many Trade Union battles gradually and insensibly accepting the capitalist's axioms that wages must necessarily fluctuate according to the capitalist's profits, and even with every variation of market prices."¹⁰

The question we have to ask here about the role of the Welfare State is precisely this one about the conformative effect of institutionalized procedures like the Webbs' example of joint negotiation of wages. For such procedures are now to be found at every level of economic activity, creating a quite new framework for the political economy. Throughout the nationalized industries there are systems of consultation at plant, district and national levels. For each industry there is an Economic Development Council, and all are crowned by the National Economic Development Committee. Most Ministries have an Advisory Council or Committee and the Department of Employment has the National Joint Advisory Council to advise it. Each of these has two or more T.U.C. representatives, who are also to be found on the Regional Economic Planning Councils, and on a number of other bodies some of which are listed in Table 3.12. At lower levels Trades Councils nominate representatives to college,

school, hospital and employment boards and committees, and at the base most factories have Works Councils and Safety Committees and other devices for joint consultation and sometimes for conciliation.

Trade Union strategy in relation to this whole structure of participation cannot be argued here. The growing argument for workers' control rather than participation does not necessarily reject participation in all of these institutions, where they may provide opportunities for putting forward an independent working class view as well as for gaining experience of the facts of industrial and commercial life. Listing only some items here suggests the enormous range of occasions where a socialist alternative could be advanced—at the very least, in the battle of ideas but much more in conscious challenge to the growth path of the giant companies. Some important first steps in this direction have already been taken at the T.U.C. national level by the publication, since 1968, of a T.U.C. Annual *Economic Review*.¹⁷

Representatives of working class organizations on national economic bodies are, however, not only subject to the conformative influences which the Webbs described above, but they are even more at the mercy of the paid officials who prepare the documents for their meetings. Independent working class research is therefore of the utmost importance; and despite the heroic work of the Labour Research Department and of the small band of Trade Union Research Officers and of academics associated with the Institute for Workers' Control, such research is still exiguous in the extreme. The point at this stage to be considered is the potentially ambiguous character of the conformative role of state institutions, and especially of the involvement of working class organizations in forms of participation in economic decision making: on the one hand, every effort is made to incorporate and to head off independent working class demands; on the other hand, new opportunities are opened up for pressing these demands and new confidence is engendered in the possibility of their realization through concerted and well directed struggle from within and without the state institutions.

What can here be said for certain is that a great part of the public expenditure which we have been considering consists of payments to *people* who work in the public service. We can see in Table 3.13 the great increase in wages and salaries paid to operate the various services, with particularly large increases in general civil administration and in education. More than half (53 per cent) of the government's wage bill on current account in 1968 was in the Social Services, compared with only 45 per cent in 1955. The total number of employees in public administration, excluding H.M. Forces, rose between 1955 and 1968 from 1,279,000 to 1,427,000 an increase of 12 per cent (see Table

3.14), but the numbers employed in educational and medical services (not of course all by the state) rose by a million over the period from $1\frac{1}{2}$ to $2\frac{1}{2}$ million, an increase of 76 per cent. These increases much more than offset the decline in the employees of nationalized industries, where the rundown of man power in coal mining and on the railways reduced employment by some 350,000 or 15 per cent. They also more than offset the reduction of H.M. Forces from over 800,000 to under 400,000, so that something like 28 per cent of all employed persons were on the state payroll in 1968, compared with 23 per cent in 1955.

The switch, however, from employment, mainly of men, in the Armed Forces to employment, mainly of women, in educational and medical services must have involved a profound change in the nature of the state's institutions. It is, of course, no doubt true that the same conformative role that we found these institutions playing elsewhere is also played in the fields of education, health and welfare. The authoritarian and safe establishment views of senior University staffs, the proposals of the doctors for "choice" in medicine and the legal restraints, together with the involvement of the police, in so many of the welfare and care services, all go to prove it. The creeping blanket of consensus politics tends to stifle all but the most rebellious. Management committees throughout the Social Services include an undue proportion of coopted members, generally from the propertied class. Their manner of working is not, of course, overtly concerned to hold back socialist consciousness, but their appointed role as watchdogs of public spending within a market economy inevitably has that effect. Very few funds are handed out for responsible bodies to spend under democratic control. Adult education is in a peculiarly advanced position in this respect, but the sums made available are small.

The fact remains that two and a half million medical, educational and social workers plus another million of the lower echelon of local and national government officers—most of them already well organized in trade unions affiliated to the T.U.C.—provide a potential force for change that cannot be regarded in the same light as the traditional state bureaucracy. The actions of students, and teachers, in recent years have opened up the consensus. Child Poverty Action, Housing Associations, Shelter, Care and other groups have already shifted—fundamentally the grounds at least of the argument and increasingly of the policies pursued. And with them there are another two million workers in nationalized industries who know very well that, while they are employed, they have something indeed to "secure and fortify". This is not to suggest that the nationalized industries are an instalment of socialism or that conditions in them are perfect. They are not; but they are better than most in private industry, especially in facilities for education and participation, which far from

heading off further demands have served rather to whet the appetite for more. Although those employed in the nationalized industries are tied into the market economy in numerous important ways, as the miners have discovered to their cost, nonetheless there is no denying the differences in conditions of work, in treatment of redundancy and in the expectations raised of public service aims however much these have been disappointed.

Once again it is at first mainly in the battle of ideas that this force may be expected to begin to show itself, and the main field of battle is becoming increasingly the rising concept of the economics of resources against the economics of the market. The successful strikes of the teachers, the **dustmen**, the nurses and laboratory technicians for increased wages in the last few months of **1969**, reflected first of all a demand to keep up with earnings elsewhere. This is of crucial importance because the discrimination in wage payments against **public** employees has been a feature of all western capitalist economies; and can be seen most conspicuously in the current acts of the Conservative Government. The growing resistance to this tendency and the growing strength of public employee trade unions are in part a response to government action. Recent strikes of public employees have had, moreover, a second no less important significance. They represent, that is not so much just a claim on scarce resources, as a claim for the full utilization of resources that are known to exist. Recent Government cuts in education and health have actually meant that many men and women who could have taught and treated the sick are doing other jobs, or are unemployed. A recent survey of women in the Yorkshire coalfield, where female economic activity is particularly low, revealed not only large numbers of married women with high educational qualifications who would like to return to work but enough women anxious to train for new occupations and having the necessary educational attainments to increase the number of teachers by 25 per cent and to double the number of **nurses**.⁶⁰ And this was in the Yorkshire Coalfield where it is known that a large proportion of the young women with high educational attainment leave the area to find work elsewhere.

It is precisely this demand for the full use of resources that **reveals** a growing consciousness of the gap that is widening between the changing technological forces and the capitalist property relations that contain them. The combination of workers, especially in the nationalized industries, who know that they have achieved a little more responsibility and are aware of how much more they could achieve, with teachers and social workers, frustrated by the limits set upon their work, and students unable to find employment appropriate to their qualifications, all this is generating explosive social forces. What

is being emphasized here is that it is to an increasing extent *inside* the state institutions, and particularly in those of the welfare state, and of the nationalized industries, that these forces are being generated. The burden of this argument is that alongside what Raymond Williams has called the long revolution in culture and Edward Thompson the long political revolution there is also working beneath them both and interacting with them a long economic revolution.**

NOTES

The distinction is well made in Ralph Miliband's *The State in Capitalist Society*, 1969, p. 49ff.

2. *Ibid.*, p. 179 ff.
3. N. Poulantzas, "The Problem of the Capitalist State", *New Left Review* 58, Nov.-Dec. 1969.
4. R. Miliband, *op. cit.*, pp. 5-6.
5. K. Marx, *Civil War in France*, Section III.
6. F. Engels, *The Origin of the Family*, Lawrence & Wishart, 1940 Edition, p. 197.
7. *Ibid.*, p. 198.
8. V. Lenin, *State and Revolution*. Chapter III, Section 3.
9. The point is well made by Lucio Colletti's "Power and Democracy in Socialist Society" in *New Left Review*, no. 56, 1969.
10. F. Engels, *op. cit.*, p. 194.
11. R. Miliband, "Marx and the State", *Socialist Register* 1965, p. 283.
12. V. I. Lenin, *State and Revolution*, Chapter I, Section 3.
13. K. Marx and F. Engels, *Communist Manifesto*, Lawrence & Wishart, Centenary Edition, pp. 23-24.
14. The reference and quotation are from Maurice Bruce, *The Coming of the Welfare State*, second edition, 1965, p. ix.
15. A. Marshall, *Industry and Trade*, 1919, Preface p. vii.
16. Royden Harrison, "Two Early Articles by Alfred Marshall", *Economic Journal*, September 1963, p. 422 ff.
17. *Ibid.*, p. 428.
18. A. Marshall, *Principles of Economics*, Eighth Edition, p. 719.
19. *Ibid.*, p. 718.
20. A. Marshall, *Economics of Industry*, 1879, p. 2.
21. See M. Blaug, *Economic Theory in Retrospect*, 1968 edition, p. 593.
22. A. C. Pigou, *Economics of Welfare*, 1932 edition, p. 82.
23. *Ibid.*, p. 89.
24. *Ibid.*, p. 651.
25. J. E. Meade, *Efficiency, Equality and the Ownership of Property*, 1964, p. 25.
26. A. C. Pigou, *op. cit.*, p. 414.
27. *Ibid.*, pp. 420-433 and 439-450.
28. *Ibid.*, p. 487.
29. I. M. D. Little, *Critique of Welfare Economics*, p. 269.
30. M. H. Dobb, *Welfare Economics and the Economics of Socialism*, 1969.
31. R. G. Lipsey, *Positive Economics*, 1963, p. 267.
32. Adam Smith, *Wealth of Nations*, Vol. I, Chapter V.
- 33.

34. Karl Marx, *Economic and Philosophic Manuscripts of 1844*, F.L.P.H., p. 37.
35. Karl Marx, *Capital*, Volume I Chapter 1, Section 4.
36. J. E. Meade, op. cit. pp. 38-9.
37. A. C. Pigou, op. cit. pp. 183-5.
38. N. Kaldor and J. Hicks in the *Economic Journal* respectively for September and December 1939.
39. E. J. Mishan, *Costs of Economic Growth*, Staples 1967.
40. W. J. Baumol, *Welfare Economics and The Theory of the State*, 1952 and Second Edition 1965.
41. *Ibid.*, Second Edition p, 41.
42. *Ibid.*, p. 207.
43. *Ibid.*, p. 101-2.
44. *Ibid.*, p. 102.
45. J. E. Meade, op. cit. Chapter 7.
46. B. J. Crick, *In Defence of Politics*, p. 160.
47. J. Saville, "The Welfare State", *New Reasoner*, No. 3, 1957-8.
48. D. Thompson, *New Reasoner*, No. 4. 1958, p. 125 ff.
49. See A. Peacock. *The Welfare Society* and A. Seldon (ed) *Agenda for a Free Society* 1961, reviewed in *The Socialist Register 1965* by D. Wedderburn.
50. A. Seldon "Beveridge: 20 years after" *New Society* 14.2.63, quoted in D. Wedderburn "Pensions, Equality and Socialism" *New Left Review* No. 24 March-April 1964 p. 72.
51. See for example R. N. Titmus, *Income Distribution and Social Change*.
52. D. Wedderburn, "Facts and Theories of the Welfare State", *Socialist Register 1965*, p. 144.
53. See Phyllis Deane and W. A. Cole, *British Economic Growth 1688-1959*.
54. N.I.E.S.R. *Economic Review*, May 1970, Tables 6 and 19.
55. J. R. C. Dow. *The Management of the British Economy, 1945-60*, p. 178 ff.
56. See for example the comments in the T.U.C. *Review* for 1968.
57. Gabriel Kolko, *The Income Revolution*
58. Michael Hamngton, *The Other America*.
59. O. Ornati, *Poverty amid Affluence*.
60. J. Hughes, "The Increase in Inequality" *New Statesman* 8.11.68.
61. P. Townsend, *Poverty, Socialism and Labour in Power*, Fabian Society 1966.
62. Mr. P. Gordon Walker reported in *The Times*, 25.7.67.
63. Reported in *The Times*, 25.9.64.
64. *The National Plan*, 1965, p. 204.
65. A. C. Pigou, *Economics of Welfare (1920)* p. 47.
66. S. & B. Webb, *History of Trade Unionism*, 1920, p. 339.
67. T.U.C. *Economic Review*, 1968, 1969 and 1970.
68. See M. Barratt Brown, F. K. Hedderwick and J. Lowe, *The Female Labour Force in South Yorkshire — a Report prepared for the Yorkshire and Humberside Regional Planning Council, 1970*.
69. The references are to Raymond Williams *The Long Revolution* and to Edward Thompson's "The Peculiarities of the English" *Socialist Register*, 1965.

I am indebted to Robin Murray for the suggestion that what has been described here may be compared with them as a long economic revolution.

Table 3.1

Percentage of Population	Percentages of Total Personal Wealth			Percentage of Personal Incomes from Property pre tax 1959	Percentage of All Personal Incomes pre tax 1959
	1911-13	1936-8	1960		
1	69	56	42	60	12
5	87	79	75	92	24
10	92	88	83	99	34

Source: J. E. Meade, *Efficiency, Equality and the Ownership of Property*, 1964 Tables 1, 5 and 6.

Table 3.2

	Analysis of U.K. Public Expenditure 1913-68						
	1913	1923	1933	1948	1953	1958	1968
<i>Shares of G.N.P.</i>							
G.N.P. (Factor cost) £m.	2527	4178	4042	10468	15000	20408	36686
Public Expenditure £m.	342	1154	1220	4210	6671	8308	19122
as % of G.N.P.	13.5	27.5	30	40.2	44.5	40.6	52.1
Current £m.	241	933	1023	3630	5147	6516	14245
Capital £m.	101	221	197	580	1524	1792	4877
Capital % of Total	29.5	19	16	14	23	21.5	25.5
<i>Type of Expenditure as % of G.N.P.</i>							
Debt Service	0.95	8.3	5.5	4.8	4.6	5.1	5.2
Military	3.0	4.7	3.8	7.4	11.5	7.6	6.7
Civil Government	0.8	1.3	1.4	2.3	2.5	2.1	2.8
Economic Services	4.0	5.2	6.8	6.9	7.1	7.6	11.4
of which Public Corporations							
Capital Formation	—	—	—	2.2	3.2	3.3	4.4
Social Services*	4.7	8.0	12.5	18.6	18.8	18.2	26.0
TOTAL	13.5	27.5	30.0	40.2	44.5	40.6	52.1

* Note: Social expenditure includes all public housing expenditure current and capital, gross of rent receipts in this table.

Sources: See Table 3.4

Table 3.3

Analysis of Social Service Expenditure 1913-68
 Total (net of receipts of housing rent) analysed by Programme (%)

	1913	1923	1933	1948	1958	1968
TOTAL £m.	118.5	330	509	1896	3365	8692
Education	39	26.5	20.5	16	24	25.9
N.H.S.	—	—	—	13	21.6	19.4
Other Health	26	13.5	12	2.6	8.5	9.4
Other Welfare						
Family Allowances	—	—	—	3.3	3.8	3.1
TOTAL of the above	65	40	32.5	38	61.7	61.4
Housing (less rents)	1.5	5	13.5	15.4	2.3	3.2
Benefits	25	27	29	3.7	9.1	7.8
Assistance						
Pensions						
Food Subsidies	8.5	28	25	18.8	7.3	7.9
Food Subsidies	—	—	—	20.5	19.6	19.7
TOTAL	100	100	100	100	100	100
Agric. Subsidies £m.	—	—	—	64	255	258

Sources: See Table 3.4

Note: Other Health includes Sanitation and all environmental services.

Analysis of Public Revenue 1913-1968

Sources of Revenue	1913	1923	1933	1948	1958	1968
Public Expenditure						
Total £m.	342	1154	1220	4210	8308	19122
as % of Expenditure:						
Income Taxes	14	29	23	38	33	29.5
Capital Taxes	12	9	9	5	2	2.5
Expenditure Taxes	22	24	26	40	29	28
Rates	23	14	14	7.5	8	8.5
National Insurance Contributions	5	5.5	7	8	10	11.5
P. O. Contribution	1	0.5	1.0	0.5	1	—
TOTAL above	77	82	80	99	83	80

Profits, Interest and Net Borrowing	23	18	20	-1.0	13	16
Rents	-	-	-	2.0	4	4
TOTAL	100	100	100	100	100	100

Sources: U. Hicks, *Finance of British Governments, 1920 to 1936* Appendix Tables
National Income and Expenditure *Blue Books, 1954* and 1968
London and Cambridge Economic Service, Key *Statistics 1900-64*

Table 3.5
Public Expenditure by Programme 1968/9 to 1973/4

	1968/9	1971/2	1973/4
Education and Arts	2248	2521	2625
Health and Welfare	1850	2075	2190
Environment	693	797	860
Sub Total of above three as (%)	(25)	(26)	(26)
Pensions and Other National Ins.	2343	2742	4060
Other Social Security	942	1078	
Sub Total of above five as (%)	(42)	(43)	(45)
Housing	1094	1201	1290
of which subsidies	233	339	350
Agriculture	361	442	450
Industry	1137	1255	1185
Transport and Roads	861	1005	1115
Defence	2438	2189	2070
Overseas and N. Ireland	737	827	910
Law and Order/Admin.	938	1130	1210
Nationalized Industries			
Capital Formation	1510	1436	1640
Debt Interest	2051	2025	2000
TOTAL	19214	20724	21630
as %	(100)	(100)	(100)

Note: Sub Total excludes about £250m. to £300 m. expenditure in N. Ireland

Source: H. M. Treasury, *Public Expenditure 1968-9 to 1973-4*
Cmnd. 4234, 1969.

Table 3.6

*Comparisons of Public Revenues and Expenditures (Current and Capital)
by Categories 1968*

	Revenue (£m)		Expenditure (£m)
1. National Insurance	<u>2386</u>		<u>2386</u>
Employers	1024	Pensions	1712
Employees	899	Unemployment	134
Self employed	71	Sick & Maternity	398
Government grant	366	Injury etc.	118
Interest etc.	86	Other	106
		Deficit	-82
2. Public Corporation Account	<u>2655</u>	Gross Fixed Total	<u>2655</u>
Surplus	1465	Capital Formation and Stocks	1662
Government subsidies etc.	101	Net lending etc.	100
From Government borrowing	1089	Write offs etc.	261
		Interest to Government	509
		Other	123
3. Private Industry	<u>2039</u>		<u>2039</u>
Corporation Tax	1261	Agriculture	400
S.E.T.	619	Transport (non-nat.)	23
Stamp Duties	118	Employment Premiums	191
Redundancy Fund	41	Investment Grants	415
		Other Grants	130
		Net Lending etc.	74
		Gross Fixed Capital Formation	46
		Current Industry, Research and Employment Services etc.	264
		Redundancy etc.	127
		Total of Above	1670
		Balance (see below)	369
4. Defence, Law, Order and Administration	<u>5377</u>		<u>5377</u>
Income Tax	4168	Defence	2453
Surtax	220	External Relations	323
Balance from Industry above	369	Law and Order	496

from borrowing etc of Capital Account	620	Administration etc,	313
		Debt Interest	1792
5. Roads	<u>596</u>	Roads and Lighting	<u>596</u>
Motor Duties	322		
Part of Hydrocarbon Oils Tax	274		
6. Social Services	<u>7130</u>		<u>7130</u>
Taxes on Expenditure :			
Drink	777	Education	2243
Tobacco	1083	Health	1687
Purchase Tax	971	Welfare	312
Betting	97	Social Security (excl. N. I.)	958
Part of Hydrocarbon Oils	807	Housing	1115
Other Duties	233		815
Local Rates	1568		
Local Rents	742		
from borrowing etc.	852		
7. Central Government Capital Account	<u>2621</u>		<u>2621</u>
Capital Taxes	439	Gross Fixed Capital	
Borrowing requirement	755	Formation and Stocks	445
Borrowing from Overseas	443	Grants excl. industry	232
Interest, Dividends. Rent etc:	984	Loans to Local Govt.	589
		Overseas Lending	55
		Balance for other Lending	1300
			<u>5682</u>
8. Local Government Account	<u>5682</u>		
Central Government		Gross Fixed Capital Formation	1722
- Current Grants	1899	Current Goods & Services	2941
- Capital Grants	144	Grants & Subsidies	241
Rates	1568	Debt Interest	778
Trade. Surplus, Interest etc;	174		
Rent	742		
Borrowing from Central Govt.	589		
from other sources	566		

Source: *National Income and Expenditure* Blue Book 1969

Table 3.7

*Incidence of Taxes and Benefits U.K. 1968
for Man, Wife and Two Children*

A. All Taxes and Benefits In Each Range		Taxes and Benefits as % of Average Original Income							Difference Benefits Less Taxes
Percentage of Households	Average Income £ p.a.	N.I.	Direct	Indirect	Total	Cash	Kind	Total	
3.3	752	8.9	0.2	26.5	35.6	21.6	30	51.6	116
6.0	920	10.1	2.4	23.3	35.8	12.6	23.3	35.9	100
13.8	1097	9.7	3.1	21.4	34.2	6.7	20.4	27.1	93
25.0	1342	8.2	6.7	20.8	35.7	4.4	16.6	21.0	85
17.9	1610	7.3	8.5	17.9	33.7	3.1	14.7	17.8	84
17.0	1916	6.4	10	17.3	33.7	2.7	12.8	15.5	82
8.0	2328	4.8	11.6	14.7	31.1	2.0	10.6	12.6	81.5
4.8	2774	4.2	14.9	14.5	33.6	1.4	11.2	12.6	79
3.9	4394	2.3	19.4	11.4	33.1	1.1	6.6	7.7	74.5
100	1644	6.6	9.5	17.9	34	4.3	14.4	18.7	85.5

B. Taxes and Benefits excluding National Insurance Payments and Cash Benefits.		as % of Average Original Income		
Average Income in Range (£ p.a.)	Taxes	Benefits	Difference	
752	26.7	30	103.3	
920	25.7	23.3	97.6	
1097	24.5	20.4	95.9	
1342	27.5	16.6	89.1	
1610	26.4	14.7	88.3	
1916	27.3	12.8	85.5	
2328	26.3	10.6	84.3	
2774	29.4	11.2	81.8	
4394	30.8	6.6	75.8	
1644	27.4	14.4	87	

Source: *Economic Trends*, February 1970

Table 3.8

Analysis of Government Economic services 1968-9 and Estimate for 1973/4

	1968/9	1973/4 (1969 prices)
1. Aid to Public Sector		
Roads and Public Lighting	610	870
Coal Industry and Transport Subsidies and Grants	281	245
Nationalised Industries Capital Formation	1510	1640
TOTAL	2401	2755
2. Aid to Private Sector		
Overseas Operations Aid (say 60% of £206m.)	124	150
Information	28	
Technology: Technical Services	190	170
Research Councils	90	115
Agriculture: Support	264	
Other Aid	97	450
Employment: Services	60	
Redundancy Fund	52	
Local Employment Promotion	38	900
Regional Employment Premia	103	
Investment: Grants	448	
S.E.T. Premia	53	
Other	26	
TOTAL	1629	1785

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Source: Treasury Public Expenditure 1968-9 to 1973-4 Cmd. to 1973-4 Cmd. 4234, 1969.

Note: The difference between the figures above and those in Table 3.7 for public and private aid is due to the different accounting years.

Table 3.9

	<i>Growth in Social Service Expenditure 1958-68-73/4</i>				Est. 1973/4 £m	Real Growth 1968/9 to 73/4 (1968 = 100)
	1958 £m	1968 £m	Growth Money Terms (1958 = 100)	1958-68 Real Terms (1958 = 100)		
All Social Services	3710	9526	257	191	10935	115
Education and Arts	811	2253	278	207	2625	116
Capital	142	381	268	200	425	112
- Schools	-	195	-	-	-	-
- Other	-	186	-	-	-	-
Current	669	1872	282	210	2200	118
- Schools	-	1113	-	-	-	-
- Other	-	401	-	-	-	-
- Grants	90	358	398	296	-	-
Health and Welfare	1147	2814	245	183	2980	106
N.H.S.	728	1687	231	172	1815	108
Capital	33	148	450	335	180	121
Current	695	1539	222	165	1635	106
Local Welfare	25	89	356	265	100	112
Child Care	25	65	260	194	75	115
School Meals etc	78	158	203	151	130	82
Environment	286	815	285	212	860	105
Housing	412	1115	271	202	1290	116
Capital	301	881	293	218	910	103
Subsidies	111	234	210	157	380	119
Social Security	1345	3344	248	185	4060	121
Nat. Ins. Pensions	662	1712	259	193	2120	123
Other	307	674	219	163	800	118
Family Allowances	129	270	209	156	370	137
Assistance etc	247	688	278	207	770	112
Agricultural Subsidies	266	258	0	0	330	127
Retail Prices	100	134	134	-	-	-

Sources: *National Income and Expenditure* Blue Book 1969Treasury *Public Expenditure* 1968-9 to 1973-4

Table 3.10

Personal Income before Tax

	1959 £m	1964 £m	as % of 1959	1969 £m	as % of 1964
A. Blue Book Figures					
Income from Employment	13104	18200	139	24678	136
Wages	8060	10760	134	24135	136
Salaries	4665	6990	149		
Forces Pay	389	450	115		
Income from Self Employment	1890	2342	124	7442	131
Rent, Dividends & Interest	2063	3344	162		
N. I. Benefits and Grants	1555	2257	145	3938	175
N. I. Employers Contribution	418	682	162		
Other Pension Funds etc	580	847	146		
Note: Between 1964 and 1968					
Income from employment		128			
Wages		119			
Salaries		137			
Income from self employment		121			
Rent, Dividend and Interest		127			

Sources: *National Income and Expenditure* Blue Book, 1969, Table 19 and *Economic Trends*, Table D, July 1970

B. National Institute Figures

	1964 1959 = 100	1969 1964 = 100
All Employment Income	140	137
All Property Income	140	126
Corporation and Company Profits	150	118

Source: N.I.E.S.R. *Economic Review*, May 1970, Table 8.

Table 3.11

Movements in Weekly Earnings U.K. 1960-69

A, Salaried and Manual Workers

		1960	1969	1969
		£	£	% of 1960
Average Manual Weekly Earnings	Men	14.1	23.9	169
	Women	7.25	11.75	162
Average Salary Weekly Earnings	Men	18.9	31.7	167
	Women	11.6	19.0	163
<i>Administrative, Technical and Clerical Workers</i>				
Average Monthly paid (adjusted to weekly)	Men	24	35.47	148
	Women	10.5	15.65	149
Weekly paid	Men	15	24.2	160
	Women	7.55	12.03	158

Sources: Ministry of Labour *Gazette*, April 1961
D.E.P. *Gazette*, July 1970.

B, Lowest and Highest Manual Workers Weekly Earnings

		1960	1968	1968
		£	£	% of 1960
All Men	Lowest Decile	10.0	15	150
	Lowest Quartile	11.7	18.1	154
Men in Manufacturing	Top Quartile	17.2	27.3	159
	Top Decile	20.6	33.2	161
	Lowest Decile	10.5	16.8	160
	Lowest Quartile	12.3	19.9	161
All Women	Top Quartile	18	28.8	161
	Top Decile	21.6	34.4	160
	Lowest Decile	5.5	7.7	140
	Lowest Quartile	6.4	9.0	141
	Top Quartile	8.9	13.1	147
	Top Decile	10.5	16	152

Sources: Ministry of Labour *Gazette*, April 1961
Employment and Productivity *Gazette*, June 1969

Table 3.12

*Trade Union Representation at Various Levels*1. *T.U.C. National*a. *Representation on Government Bodies*

- National Economic Development Council—Gen. Sec. and another and T.U.C. C.B.I. Joint Committee and E.D.Cs. for each industry
- Census of Production Advisory Committee—One
- Iron and Steel Advisory Committee—One
- Commission on Industrial Relations—Close contact
- National Insurance Advisory Council—One
- Industrial Injuries Advisory Council
- National Freight Corporation—One
- National Bus Company—One
- National Joint Advisory Council (Employment Developments Policy Committee)—14 of which Joint Standing Committee—5
- National Youth Employment Council—7
- Energy Advisory Council—4

b. *Representation on Voluntary Bodies*

- British National Export Council—One
- British Productivity Council—Gen. Sec. and 10
- Council of Industrial Design—One
- U.K. Automation Council—2
- Domestic and Industrial Coal Consumers Councils—3 on each
- Iron and Steel Consumers Council—Sec. and one
- National Industrial Fuel Efficiency Service—One

c. *Nominations to Nationalised Industry Boards*

- London Transport Executive
- British Steel Corporation
- Transport Undertakings
- Industrial Reorganisation Corporation.

2. *Regional and Local Bodies*

- Nationalised Industries Regional Consultative Committees
- Local Conciliation Committees of the Race Relations Board—ne each
- Regional Economic Planning Councils—4 or 5 each
- Regional Advisory Councils for Further Education—ne or two each
- Polytechnics Governing Bodies—2 each.

3. *Trades Councils Representation on*

- Hospital Boards and Management Committees
- School Boards and Governors
- Employment and Youth Employment Committees

4. *Factory Level*

- Joint Consultative and Works Councils
- Joint Safety Committees
- Pit and Plant Conciliation Committees of the Nationalised Industries

5. *International*

- I.L.O. Governing Bodies—one to two and Industrial Committees—one to two
- I.C.F.T.U.—Gen. Sec. and one
- E.F.T.A. T.U.C. Committee—Two
- E.C.F.T.U.s.—Two
- O.E.C.D. T.U. Advisory—One

Table 3.13

*Wages and Salaries Share of Public Authorities
Current Expenditure on Goods and Services 1955-1968*

Category	1968	as % of	Growth of	Distribution	(%)
	Wages £m	TOTAL in each category	Wages 1955-68	of Wages by Category 1955	1968
Defence and Overseas	1058	43	164	38	24
Civil Government	555	88	400	8.5	13
Agric./Industry/Roads	356	55	260	8	8
Social Services					
Education, Arts and Child Care	1073	69	361	18.5	24.5
Health	778	51	283	16	18
Welfare	113	49	308	8.5	2.5
Enviroment	329	67	190	2.5	8
Social Security Admin.	78	53	—	—	2
TOTAL	4340	56	256	100	100
Plus charged to Capital Account to Trading Services	103 314	— —	— —	— —	— —

Source: *National Income and Expenditure* Blue Books 1961 and 1969

Table 3.14

State Employees G. B. 1955-1968
(in thousands)

1. Public Administration	1955			1968			Total % Change 1955-68 1955=100
	M.	F.	TOTAL	M.	F.	TOTAL	
H. M. Forces	790	19	809	380	15	395	49
National Government	399	164	553	382	212	594	107
Local Government	540	186	726	608	225	833	114
TOTAL Civil	939	350	1279	990	437	1427	112
TOTAL	1729	369	2088	1370	452	1822	87

2. Educational, Medical and Dental Services							
Education	(329) ¹	(220) ¹	678	423	922	1345	199
Medical and Dental	(60) ²	(200) ²	655	243	758	1001	153
TOTAL	-	-	1333	666	1680	2346	176
3. Nationalised Industries							
Gas, Electricity, Water	338	40	378	360	57	417	110
Coal	-	-	704	485	21	506	72
Iron and Steel	(260)	(30) ³	(290) ³	250	20	270	(92) ²
Railways	-	-	506	275	23	298	59
Postal etc	-	-	308	323	120	543	176
Other	-	-	(200) ⁴	-	-	(240) ⁴	(100) ⁴
TOTAL	-	-	2386	-	-	2074	(85)
4. TOTAL Working Population							
All Economically Active	16084	7828	23912	16285	8948	25233	106
Self employed and Employers	915	62	978 ⁵	1320	361	1681	172 ⁵
Employers	14257	7676	21933	14580	8572	23152	105
Unemployed	121	71	192	429	77	506	264
H. M. Forces	790	19	809	380	15	395	49
Total Civil State Employees	-	-	4998	-	-	5807	116

- Notes: (1) Employees in direct grant and maintained or assisted schools and in Universities (i.e. excluding further education and private schools)
- (2) Doctors and Nurses in the N.H.S. respectively.
- (3) Estimated as half of all working in metal manufacture in 1955.
- (4) Estimates for road, sea and air transport, ports etc.
- (5) The basis for these figures is different in the two years.

