

Εἶναι συγγραφεὺς πολυαριθμῶν βιβλίων καὶ ἄρθρων. Τὸ τελευταῖο βιβλίο του μὲ τίτλο «Πληθωρισμός, Ἀνεργία καὶ ἡ Ἀγορὰ» (*Inflation Unemployment and the Market*) μόλις ἐκκκλοφόρησε.

Ὁ καθηγητὴς κ. *Wilson* θὰ μᾶς ὁμιλήσει σήμερα μὲ θέμα «*The Future of the Welfare State*» (Τὸ μέλλον τοῦ Κράτους Προνοίας). Ἡ ὁμιλία αὐτὴ δίδεται στὰ πλαίσια συμφωνίας ἀνταλλαγῶν ποὺ ὑπάρχει μεταξὺ τῆς *British Academy* καὶ τῆς Ἀκαδημίας Ἀθηνῶν. Ἀξίζει νὰ ἐπενθυμίσουμε ὅτι πρὸ δύο ἐτῶν ὁ ἐξ ἡμῶν καθ. κ. Ν. Λοῦρος ὁμίλησε στὴν *British Academy* μὲ θέμα «*Futurology, Biomedicine and Eugenics*».

Παρακαλῶ τὸν κ. *Wilson* νὰ λάβει τὸ λόγο.

THE FUTURE OF THE WELFARE STATE

ΟΜΙΛΙΑ ΤΟΥ ΜΕΛΟΥΣ ΤΗΣ ΒΡΕΤΑΝΝΙΚΗΣ ΑΚΑΔΗΜΙΑΣ ΚΑΘΗΓΗΤΟΥ Κ. THOMAS WILSON

The future of the welfare state has long been a subject for speculation and debate. It would have been very surprising had it been otherwise. For the group of public services thus described are so important in their claims on resources and so diverse and far-reaching in their effects that a continuing discussion, with a sharp edge of controversy, was only to be expected. There have, however, been changes in emphasis. Thus much greater stress has been laid in recent years on the cost of these services than was customary in what we can now regard as the two halcyon decades of economic expansion and stability that ended with the first oil crisis of 1973/4. Although there was, of course, no unanimity of opinion in that earlier period, there was strong support throughout western society for the view that the various welfare services should continue to be expanded, and expansion on a massive scale did in fact take place, at a rate usually well in excess of the growth in national output. Even so some of the problems that attracted attention and caused concern — in particular the problem of poverty — were held to have been only inadequately resolved, and it was often said that still more expenditure was required. Today, however, the emphasis is very different. As might be expected, there is still a conflict of opinion but there is nevertheless a much more emphatic insistence on the need to curtail expenditure and ensure greater economy in its use.

At first sight this change may seem to be very easily explained by the recession of the early eighties and by the incompleteness of the subsequent recovery that has left unemployment at levels inconceivable only a few years ago. But is this explanation, though so apparently the obvious one, altogether adequate? If the main objective of the welfare state is to afford protection against hardship, might it not then be argued that when times are good, with rising output and low unemployment, nearly everyone should be able to look after themselves? The welfare state would then be required to provide mainly for the special cases that always remain — the victims of unusual misfortunes, the drug addicts, the alcoholics, and so on. When, on the contrary, times are bad, with economies depressed and jobs often hard to obtain — is it not precisely in situations of this kind that the welfare state is most needed and has most to contribute? Nor is this all. For it used to be contended that the welfare state itself acted as a stabilising agent because it served as a built-in defence against deepening depression by sustaining demand in the face of forces making for its contraction. In Britain this view was put forward by Keynes in the nineteen-forties and also by Beveridge, one of the main British proponents of the welfare state. Today, on the contrary, the welfare state is often denounced by members of the monetarist school as a contributory cause of our economic difficulties. Those of us who do not subscribe fully to the tenets of monetarism must nevertheless admit that the modern situation with prices and wages rising at a time of heavy unemployment is very different from what had previously been envisaged.

It is necessary to add, however, that even without a recession, there would have been reasons for concern about the sustained growth in social expenditure at a rate well in excess of the growth in national output. This is shown clearly by the OECD statistics in which “social expenditure” is taken to mean public expenditure on education, health services, pensions, unemployment pay and some other official schemes. It may be observed in passing that their selection of items is open to marginal criticism and may be partly affected by the need to ensure reasonable comparability between different countries. For example public assistance with housing costs seems to be inadequately reflected. Moreover assistance may be given in the form not of cash transfers but of allowances against tax. A more basic question is what common characteristic do these public services possess that warrants their being grouped together as constituting, or broadly representing, “the welfare state”. The answer must be in the objectives they are designed to serve. Of these, protection against poverty is clearly one but there are others as

well. To these more basic issues we must later direct attention, but meanwhile it is prudent to observe that, although the statistics may have the appearance of clear hard objectivity, free from any subjective haze of social theory, this is by no means the case.

If, however, we take the OECD figures as they stand, we observe that for the OECD countries as a whole the unweighted average of social expenditure as a percentage of gross national product rose from just over an eighth in 1960 to nearly a quarter in 1981. In the USA, the fraction is nearer a fifth; in Sweden nearer a third. In this latter year, British social expenditure accounted for almost three-fifths of total public expenditure. Social expenditure has been rising faster than the rest of public expenditure and both have been rising faster than gross domestic product.

This long period, 1960 - 1981, can be conveniently divided into two — roughly that before the oil crisis and that after. For the sub-period 1960 - 75, real GDP rose on average by 4.6 per cent a year; social expenditure rose by 8.4 per cent. Over the years 1975 - 81, the annual growth of output was 2.6 per cent; of social expenditure 4.8 per cent.

As might be expected, these averages conceal important differences between different countries. For example, in four countries — Canada, Germany, Australia and the USA — social expenditure ceased to grow more rapidly than GDP in 1975 - 81 and in some cases grew less so. In Britain social expenditure continued to grow faster, at almost twice the rate of GDP, but had previously grown at more than twice that rate. In Greece, the ratio of the growth of social expenditure to GDP was 1.2 between 1960 - 75; but that ratio had risen substantially to 2.7 in 1975 - 80. Greece, in short, has been expanding its welfare state more rapidly relatively to GNP in the later period.

Another indicator can be obtained by directing attention to cash transfers alone, with benefits in kind set aside for the moment. These cash transfers — pensions, unemployment pay, and so on — can then be expressed as a percentage of personal incomes before tax. The results of this calculation are illuminating. In Britain, these social transfers account for about 15 per cent of personal income; by contrast, income from property accounts for under 10 per cent. Before the war, property incomes accounted for 22 per cent and social benefits for only $5\frac{1}{2}$ per cent. Even in the USA, social transfers are now roughly the same proportion of personal income as income from property. I do not wish to suggest that this change was right or wrong but rather, on factual grounds, to draw attention to the

social revolution that has taken place. In Britain these social benefits are about four times dividends paid to individuals. In all the Western countries dividends are much smaller. So much for the Marxist claim that social benefits are merely modest compensation for exploitation, as in the form of distributed "surplus value".

Obviously social expenditure cannot continue to grow indefinitely relatively to GDP. This is not an inference from some hidden value judgement. It amounts to nothing more than the commonsense observation that if any item of expenditure were to grow indefinitely it would absorb all the rest — scarcely an obscure or contentious proposition! The real question is, of course, the difficult one of deciding whether a particular country has yet reached the position where it would be harmful to allow social expenditure to continue to grow more rapidly than national output.

The verdict should depend in part upon the effect of more rapidly growing social expenditure on inflationary pressure, in its various forms. For inflationary pressure could, of course, be the expression of a general reluctance to accept the consequences, in the form of higher taxation, of some expansion of this social expenditure. And intensified inflationary pressure will make it more difficult to cope satisfactorily with the problem of unemployment which will react back upon the finances of the welfare state itself. And so on. These are difficult and contentious matters. Different answers must be expected between countries and within countries, reflecting conflicting assessments of the factual situation, conflicting value judgements and also, of course, the conflict of interests between various social pressure groups. It would be foolish to suppose that a straightforward and universally acceptable answer could be found, even for one country. But it ought at least to be possible to analyse more closely the influences at work and to assess some of the considerations that need to be taken into account.

Now it might so happen that no hard new social judgement would have to be made, no difficult change of course taken, in order to reduce the growth in social expenditure. For it is possible that the rapid expansion of the past was the outcome of factors that have now lost, or will soon lose, much of their force, so that the pressure for expansion will weaken without any specific official action. This, of course, is only to mention a possibility. What does the evidence suggest?

In the case of health services, it does not seem at all likely that this will, in fact, be the case. For scientific advance is always opening up new possibilities and the growth of demand is likely to remain strong. Moreover the ageing of the

population will greatly strengthen this demand for health services. To illustrate with British estimates: health care for persons in the 65-70 age group costs about four times the amount per head required for those of working age; and nine times as much for those who are 75 and over.

The prolongation of life will raise the burden of dependency — not only the prolongation of life among the very old but also among the young, as children with serious disabilities are kept alive. And so on. It is unnecessary to stress that the choices to be made in the disposition of the resources available raise difficult moral, as well as technical, issues. More heart transplants at great cost *versus* better geriatric facilities? And so on. One way of trying to ease the tensions created by such choices is to press hard for an increase in the *total* that is to be made available.

It seemed reasonable at one time to suppose that a better, if more costly, health service, made widely available, would bring with it the partially offsetting advantage of less loss of working time from sickness, and would thus contribute to higher output. Things have turned out differently now that the ravaging infectious diseases, such as tuberculosis, have been brought under control. Working time lost in sickness has tended to rise, not fall, partly because sickness benefit is available and partly because we have enhanced our idea of the degree of comfort associated with being well. There is, of course, another side to the coin. For the stresses of modern industrial life and the damage done to the environment are reflected in demands on the health services.

When I turn to education, it is scarcely necessary to say — not to an audience such as this — that its value is not to be assessed simply by its contribution to national production! Having said this, however, it is in place to observe that the contribution to production is clearly large. And there is still immense scope for improving educational standards and facilities, including the further education of adults. One cannot therefore suppress some regret that the demographic forecasts of a relative decline in the juvenile population are so often taken to afford an adequate justification for reducing expenditure, or for cutting back its rate of growth rather sharply.

Admittedly there is a further qualification to be made. This is to the effect that the cost of any improvements in quality need not be regarded as simply and fully a state responsibility. If, for example, an adult person feels that his prospects would be benefitted by a new period of education, can he not be expected to contribute, at least in part, towards its cost? In this context, as in so many others,

we tend to slide almost unaware into making the assumption that, if anything at all is to be done, the state must do it — and do it all.

Demographic forecasts are obviously of great importance in attempting to assess future expenditure on cash benefits — i.e. pensions, child benefit, etc. It should be observed that these cash payments are everywhere the largest component of social expenditure. For example, in Britain, expenditure on these transfers is currently running at about £ 36 billion as compared with £ 13.1 billion on education and just under £ 15 billion on health. Perhaps I may interpolate that defence expenditure—so often mentioned in debate—amounts to about £ 16½ billion. All these figures are to be related to one for total expenditure of about £ 122 billion which, in turn, is about 42 per cent of gross national product. Of these payments in cash, pensions are much the most important part and the relevance of the demographic factor is thus clear. Demographic change has been one of the factors contributing to the rise in social expenditure in the past and is likely to do so in the future. Thus we can anticipate with certainty a very substantial rise in the number of elderly people. In Britain, the increase over the next fifty years is officially put at over one-third. Large increases are expected in most countries. It is also anticipated, however, that there will be a substantial decline in the number of juveniles which would tend to reduce the demand for child benefits in cash and also reduce, as we have seen, the pressure on educational services.

At this point, however, we must be cautious. It is one thing to forecast the number of old people in the early decades of the next century, for these will be people now alive. The forecasting of fertility rates is a different matter. Although plausible forecasts can be made, the margin of error is obviously greater and will affect not only estimates of the number of children but also, to some extent, estimates of the population of working age. It is only with these qualifications in mind that I draw your attention to the prospect that in the OECD countries the unweighted average for the elderly will rise. It is already up from 8½ per cent in 1950 to 12 per cent in 1980 and may rise to 18 per cent by 2025.

What we should like to be able to forecast with reasonable accuracy is the ratio of future contributors to the number of elderly beneficiaries. For Britain official estimates have recently been presented which suggest that this — the support ratio — is likely to fall only slightly from its present figure by the end of the century and then to decline by over 20 per cent by the end of the second decade of the next century, with some partially offsetting decline in the number of juveniles. Although the OECD experts, for their part, believe that the demographic

factor may, in total, be less crushing than has sometimes been forecast, its effect will nevertheless be serious.

Of course it is not only the proportion of elderly and juvenile dependents that matters but also the proportion of the labour force that seeks and finds employment. There are further uncertainties about the future of productivity and future changes in the international terms of trade. A variety of assumptions can be made which may help to illuminate the range of probable outcomes but will not provide any definite answer. With so much that is inescapably uncertain, it may be tempting to dismiss all these prognostications with impatience. Why devote time and effort to such dubious exercises? Why not wait and see?

The case for doing so may seem to be all the stronger when it is observed that the most important factor in the past in raising the level of expenditure has been the rise in benefits per head — a rise in real terms after adjusting for changes in prices. This rise in benefits per head has been more important than the increase in the number of beneficiaries. Over the past three decades, benefits often rose roughly in line with gross earnings, or rather faster than earnings after tax. In Britain, for example, the consequence has been that real benefits have doubled in some cases, more than doubled in others. Thus our minimum has gone up. The safety net has been lifted. This, of course, is an important explanation of the persistence of "poverty". The poverty level has been at least doubled over the years.

When we look ahead with these facts in mind, may we not reasonably infer that the scope for discretionary action is so large that we can indeed push the doubtful forecasts into a position of secondary importance? Will this scope for the exercise of discretion not indeed allow us to wait and see? Unfortunately it is not so easy. For the prospective availability of social benefits affects the anticipations of private people and moulds the provision they may choose to make for their future needs. This is clearly so with regard to pensions. It is also relevant, in different ways perhaps, with regard to health care and the education of children. It would be poor social policy to raise hopes on the basis of easy and optimistic assumptions and then to dash those hopes in the event. This would be unfair and would, naturally, encounter strong political resistance. Yet it is scarcely possible to leave future policy unspecified.

Let me draw this part of my observations together by saying:

- 1) that we cannot rely upon the problem solving itself by a waning of the forces making for expansion;

- 2) that, in the nature of the case, long-term policies have to be formulated somehow in the face of great uncertainty about many relevant considerations ;
- 3) that, in such circumstances, caution is needed and flexibility in the arrangements made is clearly desirable.

Let us adopt a different approach. However much uncertainty there may be about future prospects, there ought to be general agreement on the need to ensure that the arrangements for social benefits in cash and kind are as economical as possible. By this I do not mean that the provisions made must be niggardly and cheese-paring, but rather that the means adopted should be effectively related to the objectives they are meant to serve.

What are these objectives? Let me postulate that the primary aim should be to provide protection against poverty. It is a statement that will require more definition later, but for the moment it will serve.

The question to which we must then address ourselves is this: Can social expenditure on the vast scale now customary throughout the developed world really be justified on the ground that it is needed to provide protection against poverty? The answer must surely be that it can not. In the USA, one family out of every two receives a cash benefit of some kind. In the UK, two families out of every three. A much higher proportion is obtained if benefits in kind are included with the health service almost universal and with free state education very extensively used.

According to the country chosen, the equivalent of one-fifth, or one-quarter or even one-third of the GNP is collected from the people and then returned to them. Not quite to the same people, admittedly, but there is a large overlap. Is this monetary merry-go-round really justifiable?

In Britain, 60 per cent of the incomes of the retired comes from pensions. But these people represent a cross-section of yesterday's population. Could many of them not have made adequate provision for themselves? Even in the top quintile, 20 per cent of gross income is from pensions. Or, if one looks at total family income, one observes that 17 per cent comes from cash benefits. These are British figures—you will forgive me for making so much use of them. But they do not present an extreme picture. On the contrary, social benefits are relatively still more important in some other countries such as Sweden or the Netherlands.

What is it all for? Strangely enough, this is a question that is not as often or as widely discussed as one might expect. Or perhaps this passing over of basic objectives is precisely what one should expect in the light of one's experience

of government! For institutions, once constructed, tend to acquire a life of their own, to sustain themselves and even to expand and grow with sometimes no more than a vague and cursory reference being made to the objectives they are meant to serve.

Although such large sums are levied for social benefits, their expenditure is widely spread because such a large part of it is disbursed without regard to need. Most benefits in most countries are universal and universality may both swell the total bill and leave too little, it may be thought, for the poor.

Indeed some critics of the welfare state — usually Marxists — have complained that it does more to benefit the bourgeoisie than to benefit the proletariat. In support of this contention, it can be pointed out, for example, that middle class people are in a better position to extract what they want from a free health service. For they are more articulate and will not allow themselves to be pushed around by professionals and petty bureaucrats. This may be so. But, of course, one must also take account of cash transfers and of the offsetting payments made in the form of taxes and social insurance contributions. When one looks, as one should, at the more comprehensive statistics, it is clear that the welfare state is redistributive in Britain, although statistical precision is not to be expected. I believe the same to be true of most Western countries. The fact remains that these systems could be made more selective in the sense that the benefits supplied could be directed more specifically to the poor. For in this way an acceptable basis for policy might be better fulfilled and this done at less total cost.

In Britain there has, in fact, been a recent attempt, still incomplete, to review and perhaps reconstruct the arrangements for the provision of cash benefits and I hope you will bear with me if I refer specifically to it. For the Government has tried to address itself explicitly to objectives and to the methods of attaining them. And it has laid particular stress on ensuring, if possible, that resources go where they are most needed. The outcome of this inquiry may therefore be of some interest to other countries as well.

Let us begin by observing that if universal flat-rate benefits seem a dubious way of giving protection against poverty, this criticism can be directed still more strongly against benefits that are graduated in amount relatively to previous income. Of course it is perfectly true that a person who has been earning, say, three times the average will want to have in retirement a pension higher than could be expected by someone previously on or below average earnings. Of course this is so. But what is by no means obvious is that it is the proper role of the state to

operate an official scheme, backed by compulsion, which will provide such graduated benefits.

Why should the state seek to perpetuate in retirement some of the inequality of working life? Private provision, including occupational benefits, is surely the right way of obtaining supplementation. But this should be without compulsion, for people should be allowed to determine the pattern of their life-time expenditure without paternalistic interference, provided a tolerable official minimum is ensured. Nor should there be subsidies or tax-concessions unless these can be justified on other grounds.

It is of no small interest that the Thatcher Government did indeed propose to scrap a comparatively new graduated British scheme and displayed great courage in proposing to do so. This scheme, if retained, will become very expensive, but not until 2020 or thereabouts. Few democratic governments have been prepared to incur unpopularity today from concern about so distant a future. Unfortunately the alternative they have proposed is a dubious compromise which retains a paternalistic element — and a compromise of some complexity which we need not explore — mercifully. But this is a clear example of the difficulty of abandoning a scheme when not yet even mature.

Flat-rate benefits are more easily justified on social grounds than are graduated benefits. But why not go still further and be truly selective, with resources really concentrated on those in need? Unfortunately there are obstacles: "need" has to be defined and its presence established in individual cases. This can be administratively costly, and can be resented as inquisitorial. Thus, defeated by the complexity or offended by the inquisition into private resources, some poor people do not take up fully the benefits they are entitled to receive.

These difficulties need not be altogether insuperable. At all events there is one country — Australia — that continues to operate a fully selective system, without universal benefits, whether flat-rate or graduated. This is, perhaps, a case study that deserves more attention in other countries. Italy, I believe, is now considering a simpler and more selective scheme.

There is one possible means of achieving selectivity that has, rightly, attracted a good deal of attention from economists of late: a negative income tax. According to this proposal, the collection of income tax and the provision of benefits should be carried out by the same agency. Persons whose income was above a certain level would pay tax. Those with incomes below this critical level would receive benefits — that is to say, negative taxes. The information about family cir-

cumstances at the disposal of the tax authorities and the social security department would thus be pooled. The stigma of failure that is said to be associated with traditional means-tested benefits might not be felt. To extract cash from the tax authorities might rather be a source of pride! Moreover the vast circular swing in the monetary flow — outwards as benefits and backwards as tax — would cease. It is an appealing idea. Would it work?

In attempting to answer this question, it is instructive to look again at the recent British proposals for the reform of the welfare state. For the present Government might have been expected to favour a negative income tax and was indeed urged by some supporters to adopt this device. But it does not propose to do so, although some administrative changes are to be made which suggest a limited move in that direction.

Unfortunately there are difficulties :

First, a social security administration has to be able to deal quickly and sensitively with changing family circumstances. The tax administrators have different procedures reflecting different objectives. It would be wrong to suppose that the tax system could simply take over all that is done by the social security system and we should have to envisage a marriage of departments — with the prospect of subsequent marital strains and stresses. It is true, however, that a substantial part of the welfare arrangements could be handled in this way, in particular entitlements which, once established, remain in force for a considerable time. Child benefit and retirement pensions are important examples.

Secondly, there is the formidable obstacle that commitments have been made in the past. A regard for equity, fortified by political prudence, would prevent the abrogation of these commitments. There would certainly be bitter resentment if people who have been receiving old-age pensions, or are

expecting to do so, were now to be told that benefits would be conditional upon a means-test operated by the tax authorities. Thus, although suitable candidates on administrative grounds for transfer to the tax system, pensions would be extremely unsuitable on other grounds.

The third point, which is related to the last one, is that a fully selective system would weaken the incentives to work and to save in order to make one's independent provision for future contingencies.

It is not, therefore, proposed to get rid of flat-rate benefits in Britain. Indeed, on reflection, their preservation has much to commend it. Selection, in this case, is by category — age, sickness, lack of work and so on. Some in these categories do not need the benefits, but this may be a price that is worth paying in order not to weaken incentives by too much selectivity based on the assessment of each family's own resources. But the verdict must depend very substantially upon the size of the benefits relatively to average income. If designed to provide a modest minimum income as protection against serious hardship, would the waste entailed by universality be a price worth paying for the other advantages? Whatever the answer that might be given in a country starting from scratch, it is hard to change the structure of an existing welfare system if this means disappointing anticipations reasonably formed in the past. When a country has operated such a system, it will be difficult subsequently to cut it down. At times of extreme crisis, larger changes may perhaps be made — may indeed be forced upon the government in power — but in less dramatic circumstances the factors making for inertia are strong. One moral is the need for caution in entering into any new commitments even at a time of prosperity, for this means drawing cheques payable in a dubious future. Another lesson is the need to act with sensitivity and without delay when, with changing circumstances, some existing arrangement looks as though it may swell unduly in importance and make disproportionate and even inequitable claims on resources. The topical example is the single-parent family.

When single-parent families were few in number, it seemed right to provide special assistance. When the proportion has climbed towards a fifth of all families with children and seems likely to rise still more, we need to take account of

the burden then being carried by traditional families with children. Unfortunately any remark of this kind may be taken as evidence of a desire to impose an older view about sexual morality. That is not so. It is a question of what is now fair and equitable in a world of changed mores. In so far as there is future scope for raising family benefits, the emphasis should, perhaps, be placed on assistance with the cost of children rather than providing further special aid to single-parent families.

Provided action is taken at an early stage, problems such as this may be eased, if not resolved. But for most of the services provided by the welfare state, the early stage is past, and it is now too late to attempt a complete demolition and rebuilding of its structure. By "structure" I mean the range of services provided, their coverage and the conditions for their receipt. Of course important changes can still be made and some improvements effected. The new British proposals would have this result. But a change so radical as the substitution of a negative income tax for all the main cash benefits would not be politically feasible — except, perhaps, at a time of extreme economic crisis.

*There is, however, an exceedingly important respect in which changes have been made and can still be made. This is in the way in which benefits per head are altered over time. It has already been observed above that these changes in the size of *p e r c a p i t a* benefits were the most important factor in raising expenditure throughout Western Europe over the past quarter century. There is no reason to suppose that its importance will fade in the future.*

Benefits may be raised in various ways. Adjustments may be made from time to time by reference to an index of prices or to an index of wages. This indexation may be a statutory requirement, as in France. Or there may be a statutory ruling which is so drafted as to provide scope for discretion, as in Germany. Or the changes may be fully discretionary, although broadly equivalent to indexation, as was the case in Britain until the mid-seventies. Whatever the method, there is some suggestion of the technical and the abstruse and this, together with the short view so often taken by the public, may explain why it seems to be easier to bring about changes which, though gradual, can become very large indeed. It is certainly the case that nearly all the important changes made in the countries in Western Europe in response to the recent recession took the form of changes in the arrangements for indexation.

In most countries, most of the benefits in payment are now protected against changes in the price level. Although there are exceptions, it seems to be generally

believed that at least this degree of protection should be provided. Unless some economic catastrophe were to reduce significantly the standard of living available to the whole population, that of the beneficiaries should be maintained. There is a much more controversial question. This is whether it is right for social benefits to be raised in *real* terms over time as the standard of living in a society gradually increases over trend. This is what happens automatically, though with a lag, in the case of newly awarded pensions if these are graduated relatively to past income. Benefits already in payment may also be raised in line with gross average earnings before tax, and this was done in a number of countries prior to the second oil crisis. Was this really justified? I do not think so. If there is to be any link between benefits and earnings, the link should surely be to earnings *after* tax. Even this may be inappropriate in face of demographic change, and there is another still more basic question to be faced again at this point.

For here we return once more to the question: what is the purpose of the welfare state? What are we really trying to achieve? I have postulated that the basic aim should be to provide protection against poverty to do so, as far as possible, in ways consistent with other social objectives. But what is meant by "poverty", and how is "poverty" to be measured?

At one time the poverty level was regarded as an iron ration, a minimum required for subsistence. This appears, for example, to have been the view held by Lord Beveridge, one of the founding fathers of the postwar welfare state. It followed that in a society where economic progress was being made and the general standard of living was rising, an increasing number of people ought to have been able to provide themselves, by their own effort, with this iron ration. The welfare state would then have shrunk over time. Of course this did not happen. On the contrary, its size and scope increased partly with demographic change and with the extension and maturing of various schemes, but also because the poverty level was itself greatly increased in real terms. This, of course, is the main reason why, over the trend, the number "in poverty" did not fall steeply as one might have expected it to do.

Was this the proper course to follow? Certainly it is wrong to suppose that there can be a scientifically determined minimum income that will always be appropriate without regard to time or place. Subjective and cultural elements are far too strong for that, as Adam Smith fully recognised many years ago. But it does not follow that the poverty level to which minimum official benefits are related must rise fully in line with rising average earnings. For it might be

held that, although the minimum should indeed be raised, the rise should be at a slower pace than that of the average standard of living.

This may sound like a narrowly technical proposition. But it is not. On the contrary it reflects basic views about social development, the role of the state and the extent of personal responsibility. Should the scope for individual responsibility be enlarged, with each person left to determine the provision he wishes to make for the income, in excess of the official minimum, that he hopes to receive when he is old or ill or unemployed? Or should the minimum itself be raised with rising living standards by a more paternalistic state? There is a further question. If the paternalistic approach were to be rejected, would this also imply less redistribution in favour of the lower incomes? Or could the choice between the more libertarian and the more paternalistic approach be separated, by some other fiscal adjustment, from the arguments for or against less redistribution?

This is clearly a question of fundamental importance and the answers given will partly reflect differences in value judgements. It is also one that must be faced again in practical terms. For in most countries, benefits in payment are now protected against rising prices only, with the previous link to average earnings suspended during the economic recession. This means that the poverty level is static — fixed in real terms. I do not think it can remain so indefinitely. With the resumption of economic development the pressure for change will grow. It will then be necessary to determine the new procedure to be adopted — a link between benefits and gross average earnings? Or between benefits and average earnings after tax? Or something rather less than this? Should there be a formula? Or should any changes made be left to discretionary action?

These are not the questions that have received most attention in the current debate. They are, however, questions of quite central importance and the answers given will do much to determine the future of the welfare state.