

BEATRICE WEBB'S LEGACY: COLLECTIVE CONSUMPTION AND TAXATION

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Introductory Summary

This essay identifies collective consumption as an organising principle of the British welfare state attributable to Beatrice Webb. Analysis of the current system shows that it operates to the financial benefit of Low-money and Middle-income households (70% of all households). The system is financially well balanced and does not contribute to the government's budget deficit.

Beatrice Webb and Collective Consumption

Beatrice Webb (née Potter), born in 1858, was a social investigator by profession and an active member of the Fabian Society. Commonly credited with coining the expression 'collective bargaining', she should be celebrated even more for her original conception of collective consumption as the key to effective social justice. She had made a close study of working class co-operation and had identified a crucial distinction between consumer co-operatives and producer co-operatives as the platform for a distinctively democratic British socialism: a socialism based on people's universal interest as consumers rather than their sectarian interests as producers. And as a member of a Royal Commission concerned with welfare provision (the operation of the Poor Law) she had been struck by the insight that it was only by universal or collective provision that the interests of the poor could be successfully addressed (this subsequently provided the basis of the Beveridge design for a 'welfare state'). The notion of delivering 'benefits in kind' as the result of using the institutions of the state to act as purchasing agent on behalf of the population as a whole, on the principle of an all-embracing consumers' co-operative, represents fulfilment of her "supreme ambition to present some clear and helpful idea of the forces we must liberate in order to bring about reformation", what she called "the faith, the enthusiasm of my life, the work I feel called upon to do" (Beatrice Webb, *Diary* September 30th 1889).

Considering the Evidence

Beatrice Webb chose specifically to commit herself to the life of a social investigator: "Search after truth by the careful measurement of facts is the enthusiasm of my life" (Beatrice Webb, *Diary* August 17th 1889). So she would surely base an appraisal of the system of collective consumption, as currently in operation, on the evidence provided by the Office for National Statistics (at present freely available to all citizens with an internet connection).

In the following tabulations I present the evidence in such a way as to allow a judgement about the effectiveness of the current system from a broadly Fabian social democratic perspective. In each of the tables, the 'Low-money households' are the 30% of all households that have the least money available ('total household money'). This money is coming from original incomes ('take-home pay' for much the most part) plus state pensions and cash benefits (housing benefit, child benefit etc.). I chose to use 30% to create this group because a recent study described 30% of households as 'the poor', and so did the famous study by Charles Booth that Beatrice Webb helped to conduct more than a century ago. For convenience and symmetry I have identified the 30% of households at the other (top) end of the total household money scale and then sub-divided them into 'Comfortable' and 'Secure' households (for technical reasons to do with potential statistical bias). This leaves the

‘Middle-income households’ as those squeezed into the middle between the upper 30% and lower 30% of households. It’s interesting that ‘original income’ is the largest component of total household money across the board, even in the Low-money households.

Because it is designed to evaluate a system of social provision that is equally available to every household, this analysis considers taxes that all households are equally liable to contribute. It considers taxes that households pay directly when spending their take-home pay (e.g. transactions taxes such as VAT or Stamp Duty, licences for cars or televisions), compared with the value delivered through purchases made by the government on their behalf (i.e. as collective consumption or ‘benefits in kind’ - mainly education and healthcare services). And as we are concerned with collective consumption (universal provision), those taxes levied in association with paid employment (income tax and national insurance) are to be treated separately (since not everybody is liable to contribute to them).

The Situation in Terms of Household Finance

The annual sums of money involved for the different groups of households are set out in Table 1.

Table 1: Households’ Financial Circumstances

	Low-money households	Middle-income households	Comfortable households	Secure households	ALL HOUSEHOLDS
Number of households in the population ('000s)	7929	10571	5286	2650	26436
<i>Percentage of households</i>	<i>30%</i>	<i>40%</i>	<i>20%</i>	<i>10%</i>	<i>100%</i>
	£ per household per year				
Original incomes	4530	18562	40745	80093	24943
State pensions	3541	2914	1515	1055	2636
Benefits in cash	4036	4115	2188	2020	3497
Total household money	12107	25591	44448	83168	31076
Council taxes	952	1163	1379	1663	1192
Transaction taxes (VAT etc.,)	2798	5135	7632	10983	5518
Total household tax-payments	3750	6298	9011	12646	6710
Education	1146	2909	3393	3685	2555
National health service	3648	4127	4047	4185	3973
Total benefits in kind	5008	7303	7696	8249	6787

Source: ONS, ‘The Effects of Taxes and Benefits on Household Income, 2011/12’ (recalculations by me)

It is worth noting that even the Comfortable and the Secure households receive significant sums in terms of state pensions and cash benefits. It’s also interesting to see that the value of total benefits in kind received by Comfortable households (£7696) and by Secure households (£8249) exceed the value of total benefits in kind received by Low-money households (£5008) and by Middle-income households (£7303). Nevertheless, the total value of benefits in kind received by Low-money households (£5008) is significantly greater than their total household tax-payments (£3750). The same is true for Middle-income households who receive benefits in kind (£7303) greater than their tax-payments (£6298). Taken together this means that for a substantial majority of households (70%) there are clear net financial benefits from the system of collective consumption.

It is important to recognise that total household tax-payments (£6710 per household per year) account for 99% of the costs incurred in delivering benefits in kind (£6787 per household per year). This means that the cost of collective consumption is covered by contributions collected from money directly spent by households.

This observation indicates that the system of collective consumption is not of itself contributing to the government's budget deficit. And it is my opinion that this quasi-hypothecation deserves to be considered for official adoption as an aid to transparency in political deliberation.

Relative Importance in Terms of Total Household Money

An alternative presentation of the data is adopted in Table 2. The figures for receipts and payments within each group of households are expressed as percentages relative to the total household money.

Table 2: Receipts and Payments - Relativities in Terms of Total Household Money

	Low-money households	Middle-income households	Comfortable households	Secure households	ALL HOUSEHOLDS
Number of households in the population ('000s)	7929	10571	5286	2650	26436
<i>Percentage of households</i>	<i>30%</i>	<i>40%</i>	<i>20%</i>	<i>10%</i>	<i>100%</i>
	Relativities in terms of total household money (%)				
Original incomes	37.4	72.5	91.7	96.3	80.3
State pensions	29.2	11.4	3.4	1.3	8.5
Benefits in cash	33.3	16.1	4.9	2.4	11.3
Total household money	100.0	100.0	100.0	100.0	100.0
Council taxes	7.9	4.5	3.1	2.0	3.8
Transaction taxes (VAT etc.,)	23.1	20.1	17.2	13.2	17.8
Total household tax-payments	31.0	24.6	20.3	15.2	21.6
Education	9.5	11.4	7.6	4.4	8.2
National health service	30.1	16.1	9.1	5.0	12.8
Total benefits in kind	41.4	28.5	17.3	9.9	21.8

Source: ONS, 'The Effects of Taxes and Benefits on Household Income, 2011/12' (recalculations by me)

The presentation in Table 2 brings out some interesting differences between the groups of households. As observed from Table 1, Comfortable and Secure households receive more benefits in kind, in absolute terms, than Low-money and Middle-income households; but the figures in Table 2 illustrate that the value of these benefits relative to the total household money available is very much less for Comfortable and Secure households (17.3% and 9.9% respectively) than it is for Low-money households (41.4%) and Middle-income households (28.5%). By the same token, the burden of household tax-payments is greater for Low-money households (31.0% of total household money) and for Middle-income households (28.5%) than it is for Comfortable Households (17.3%) and Secure households (9.9%). This doesn't alter the fact that most households (the Low-money and Middle-income groups) are net beneficiaries of the system.

Households' Overall Shares

Finally, recalibrating the data again, as presented in Table 3, illustrates the distribution of receipts and contributions across the household groups.

Table 3: Households' Shares in Receipts and Contributions

	Low-money households	Middle-income households	Comfortable households	Secure households	ALL HOUSEHOLDS
Number of households in the population ('000s)	7929	10571	5286	2650	26436
<i>Percentage of households</i>	<i>30%</i>	<i>40%</i>	<i>20%</i>	<i>10%</i>	<i>100%</i>
	Shares in overall receipts and contributions (%)				
Original incomes	5.4	29.8	32.7	32.1	100.0
State pensions	40.3	44.2	11.5	4.0	100.0
Benefits in cash	34.6	47.1	12.5	5.8	100.0
Total household money	11.7	32.9	28.6	26.8	100.0
Council taxes	24.0	39.0	23.1	14.0	100.0
Transaction taxes (VAT etc.,)	15.2	37.2	27.7	19.9	100.0
Total household tax-payments	16.8	37.5	26.9	18.8	100.0
Education	13.5	45.5	26.6	14.4	100.0
National health service	27.5	41.6	20.4	10.5	100.0
Total benefits in kind	22.1	43.0	22.7	12.2	100.0

Source: ONS, 'The Effects of Taxes and Benefits on Household Income, 2011/12' (recalculations by me)

The 10% of households classified as Secure account for 26.8% of overall total household money, 18.8% of overall total household tax-payments and 12.2% of overall total benefits in kind. The 20% of households classified as Comfortable account for 28.6% of overall total household money, 26.9% of overall total household tax-payments and 22.7% of overall total benefits in kind. The 40% of households classified as Middle-income account for 32.9% of overall total household money, 37.5% of overall total household tax-payments and 43.0% of overall total benefits in kind. The 30% of households classified as Low-money account for only 11.7% of overall total household money, 16.8% of overall total household tax-payments and 22.1% of overall total benefits in kind; these seemingly low proportions are explained by the concentration of single-adult households in this group (singletons, especially pensioners and lone parents, having lower earning-potential than couples).

The System of Collective Consumption: Summary and Conclusion

From an overall social perspective one can observe that total tax-payments actually paid by households (i.e. not including income tax or national insurance which are mainly paid by employers via PAYE not directly by households) contribute 99% to the cost of providing the benefits in kind which result from collective consumption. And that for 70% of households (i.e. both Low-money and Middle-income households) the value of benefits in kind substantially exceeds the amounts paid in tax. Taken together these observations indicate that the system of collective purchase might be described as progressive in the nature of its operation. By convention HM Treasury eschews the

notion of hypothecation (i.e. association of particular taxes with particular elements of expenditure). This is understandable as a sensible precaution against the offering of hostages to fortune. However, this prevents an otherwise very useful and potentially effective approach to communication.

“From each according to their ability, to each according to their need” was traditionally a description of a socialist system. Since schools are provided for those who need them for their children, and the health service is provided for those who need it for their care, whilst the size of the tax-payments seem to reflect households’ ability to pay, perhaps the system of collective consumption reflects the consumer socialism that Beatrice Webb might have approved. Mind you it’s very interesting to see that although the system takes most from the households with the most money (because they spend the most) these tax-payments represent a smaller share of their total money than the lower tax-payments made by the less-monied households represent in relation to *their* total available money.

Future Prospects for Collective Consumption

Thinking now about the financial prospects of the state in terms of its responsibility for collective consumption in the context of an ageing population (i.e. a larger number of older people with age-associated demands for health and social care services): this prospect is usually, and not unreasonably, expected to require increased expenditure even if there are unprecedented improvements in productivity throughout the system of health and social care. However, the treatment adopted above suggests that adjustment to existing transaction taxes would produce increased funding for care-provision in a relatively progressive manner without increasing the budget deficit. In fact, in tune with the report of the Dilnot Commission, the increase in the rate or level of tax might be quite modest.

Concluding Summary

Collective consumption, as originally envisaged by Beatrice Webb, underpins the operation of the British welfare state. Comparing tax payments made by households in the course of everyday spending with the benefits enjoyed via collective consumption shows that low-money and middle-income households (a majority – 70% - of households) are favoured by the way the system currently operates. And the system is financially well-balanced: it does not contribute to the government’s budget deficit. On this basis there is a good case for hypothecation in terms of the funding for collective consumption: it would promote social democratic visibility. Fabians should support it.