

Sustainably funding a marginal welfare programme

Why does English social care for older people face a persistent funding crisis?

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Abstract

English social care for older people faces a funding crisis. After more than two decades of growth, public spending on residential and home care fell in the years of financial austerity that followed the Great Recession, leaving almost half a million fewer older people eligible for publicly funded care and support. Social care is a non-core welfare programme financed by a secondary area of the English state that has suffered significant reductions in spending over the past decade. Policymakers recognise that social care has a structural funding problem, and there is a broad consensus that an alternative sustainable funding approach is needed to deliver more appropriate and equitable levels of social care provision, but policymakers have consistently failed to reform how social care is funded.

This thesis argues that two very different institutional poles have emerged in England that deliver sustainable welfare programme funding: legacy positive state institutions that joined the welfare state core in the golden age of welfare, and more recent non-core welfare institutions where policymakers have engineered devolved, non-taxation funding approaches. Public social care is a significant, mature and complex welfare institution that is supported by neither. Moving English social care towards the positive welfare state core has proved to be technically and politically unworkable, and less than fully engaged policymakers have been unable to agree on a bespoke, programme-specific funding solution designed to deliver greater sustainability. Elsewhere, it has been possible to enact successful sustainable funding reform in marginal policy areas, when policymakers have looked in the policy garbage can and found that an established, pre-existing institutional answer to the funding problem already exists, allowing the politics of organisational change to follow the structure. While English policymakers might express a desire for change, the existing funding approach has been undermined by a decade of austerity, and history has not left social care a clear route to an alternative de-centred funding solution.

Contents

Abstract	3
Contents	4
List of tables	6
List of figures	7
Acknowledgements	8
Author's declaration	9
1. Introduction	
1.1. The policy garbage can	11
1.2. A tale of three institutions	13
1.3. Divergent funding paths after the Great Recession	17
1.4. The argument	21
1.5. Thesis structure	23
2. Research design and outcomes	
2.1. A qualitative approach	29
2.2. Data sources	33
2.3. Research outcomes	35
2.4. The research journey	36
3. Welfare state development, maturity and the turn to de-centred welfare	
3.1. Introduction	39
3.2. The developing welfare state	42
3.3. The core welfare state – popularity, secure funding and ossification	53
3.4. The hidden de-centred rescue of the core welfare state	60
3.5. All welfare programmes are not created equal	66
4. De-centred welfare with sustainable funding	
4.1. Solutions looking for problems	69
4.2. De-centred sustainable funding reform in Germany	71
4.3. De-centred sustainable funding reform in the UK	92
4.4. Comparison of two sustainable funding reform cases	116

4.5. Achieving and perpetuating sustainable de-centred welfare funding	122
5. De-centred welfare without sustainable funding	
5.1. Life outside the core welfare state	125
5.2. The Cinderella service	127
5.3. Reform, drift and care intensification	134
5.4. Policymaker rejection of centralised funding	144
5.5. English social care in 2020	146
5.6. Disengagement and institutional drift	152
6. Funding policy paralysis	
6.1. The elusive green paper	155
6.2. Comparison with two successful funding reform cases	161
6.3. The politics of funding non-reform	167
6.4. What's in the policy garbage can?	172
6.5. More generous care benefits without sustainable funding	178
7. Why does English social care face a persistent funding crisis?	
7.1. Research findings	184
7.2. Path dependency and path deviation	187
7.3. Punctuating the inadequate care funding equilibrium	188
8. Bibliography	191
9. Glossary	219
10. Appendix – Explanatory variables	221

List of tables

1. German Social Security Contribution Rates (2015)	75
2. Growth in German Social Security Contribution Rates (1990 to 1998)	80
3. The financial impact of SERPS modification in the UK	104
4. The three eras of post-war pension policy consensus in the UK	107
5. Major UK pension reforms from 1975 to 2014	108
6. OECD Projected future (2040) public pension expenditure (1997 and 2015)	112
7. Sustainable funding reform – global explanatory variables	117
8. Sustainable funding reform – national explanatory variables	118
9. Sustainable funding reform – institutional explanatory variables	120
10. Sustainable funding reform – political calculus explanatory variables	121
11. English social care policy regimes	151
12. Three case comparison – global explanatory variables	162
13. Three case comparison – national explanatory variables	163
14. Three case comparison – institutional explanatory variables	165
15. Three case comparison – political calculus explanatory variables	166

List of figures

1. Drivers of funding reform explanatory variables	33
2. UK labour market participation rate for those over 50 (1984 to 2014)	50
3. UK welfare spending as a share of GDP (1954 to 2011)	52
4. Recipients of benefits of German social long-term care insurance by care type	73
5. Long-term care policy continuum	81
6. Income and expenditure of the German long-term care insurance fund (1995 to 2017)	85
7. Granted applications for the assessment of need of care in Germany (1995 to 2015)	89
8. Conversion costs, replacement costs and institutional change	132
9. English service users receiving social care commissioned by local authorities (2006 to 2014)	140
10. English adult social care expenditure and informal adult care output value (2008 to 2014)	142

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Author's declaration

I declare that this thesis is a presentation of original work and I am the sole author. This work has not previously been presented for an award at this, or any other, University. The thesis refers to a joint paper on German long-term care insurance which draws on common research undertaken (Glendinning and Wills, 2018a) and a briefing for members of the Housing, Communities and Local Government Committee and Health and Social Care Committee (Glendinning and Wills, 2018b). All sources are acknowledged as references.

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Chapter 1. Introduction

1. The policy garbage can

Public spending on residential and home care for older people in England fell significantly in the years that followed the financial crash of 2008¹ while the need for care and per capita care costs both increased. Austerity driven care intensification left 460,000 fewer older people eligible for publicly funded care in 2018 than in 2009². The cuts in funding were focused on areas that already had the worst health outcomes, pushed public care payments below the fair cost of delivering care and put downward pressure on social care wages. While the past decade has seen falling care spending and declining care provision, public pension expenditure has increased by almost a third, and English pensioner incomes have increased significantly³. These very different funding outcomes within a single welfare state are driven by the nature of the institutions that finance pensions and social care. Rising pensioner incomes are underpinned by a universal taxation-funded state pension with legally guaranteed upward momentum, and publicly encouraged and guided, sustainably funded private pensions that are supported by fiscal and regulatory welfare, asset-backed and legally protected. Means-tested public social care has neither, enjoys few institutional protections and relies upon residual, fixed budget local government funding.

English policymakers have failed to increase social care spending or to introduce a more robust funding approach, but this is not a new phenomenon. Numerous public consultations, green papers, white papers and independent commissions have considered social care policy and made detailed recommendations over the past twenty years, but the ways in which care is funded have changed little. The last significant variation in the social care funding regime was enacted more than thirty-five years ago when the scope of centrally funded supplementary benefit was extended to include payments for residential care. The change was introduced with little fanfare, consultation or strategic deliberation when the Conservative government escalated a local policy innovation nationwide. This garbage can (Cohen, March and Olsen, 1972) reform was enacted in a non-core policy area by

¹ Public social care in England is funded and mostly commissioned by local councils that are financed by central government grants, local taxation and other income. A decade of asymmetric austerity focused on councils has compromised the existing funding approach as real public spending on English social care fell by 6% (down £1.2bn) between 2009/10 and 2017/18 (NHS Digital, 2018, T4).

² In 2008/09, 1,215,575 older people received publicly commissioned or provided social care in England (Burchardt et al., 2015, p.28). The figure for 2017/18 was 752,936 care recipients (NHS Digital, 2018, p.8).

³ Real terms public spending on the UK state pension rose by 31% (up £21.8bn) between 2008/09 and 2017/18 (DWP, 2018b, SP3). Average real pensioner incomes rose by 15% between 2006/7 and 2016/17 (DWP, 2018c, 2.1).

policymakers who were not particularly engaged, and it proved to be flawed and increasingly expensive. While popular with generously funded private residential care provider organisations and care recipients, the reform had little support within the Conservative administration or amongst care professionals and was dropped in the early 1990s when control of residential care budgets reverted to local government.

Cohen, March and Olsen (1972) developed their garbage can model of organisational choice in the 1970s, noting that change does not always begin with problems and that the decision-making process often starts with existing competences and solutions looking for new issues to address. They argue that when current problems, existing solutions, and high levels of decision maker energy come together, reform is possible even where there is a lack of policymaker engagement or agreement. Kingdon's (1984) multiple streams framework builds on this non-linear, garbage can model to analyse how policymakers settle on a policy agenda and make choices, arguing that there are three situational 'streams' (problem, policy and politics) that can arrive in any order but must converge (creating a 'window of opportunity') along with sufficient levels of energy from policy entrepreneurs and wider policy networks before change is possible. Mucciaroni (1992, p.467) argues that the garbage can model and multiple streams approach are valuable and influential, but give too much weight to the situational aspects of policymaking and need to be combined with a consideration of the historical antecedents of change and the impact of institutional factors that mediate the problems and solutions under active consideration by policymakers (Mucciaroni, 1992, p.482). Spohr (2016, p.258) proposes a "framework for the explanation of path dependency and deviation" that seeks to do just this, combining historical institutional insights with Kingdon's multiple streams framework. His approach considers the role played by policy communities⁴ and draws on punctuated equilibrium theory (Baumgarten and Jones, 1993), historical institutionalism's "default theory of change" (Thelen and Conran, 2016, p.54) that was inspired by the multiple streams framework (John, 2015) and is characterised by institutional stability punctuated by exogenous change enabling critical junctures⁵. Cairney and Jones (2016, p.43) argue that both frameworks conceptualise stability and instability, incremental change and major change, and can be used as alternative explanatory approaches or

⁴ Kingdon (1984, p.118) notes that the structure of the policy communities he considers can range from focused, integrated policy communities to more fragmented issue networks (although he does not use that term). Spohr (2016, p.259) argues that radical path departure is less likely when focused, technocratic policy communities dominate the policy stream.

⁵ Capoccia (2016, p.101) defines a critical juncture as a potential turning point where policy entrepreneurs (actors) have real options for radical, long lasting institutional change. Spohr's analysis combines this historical institutional concept with the multiple streams approach, describing Kingdon's windows of opportunity (policy windows) as "critical moments for path deviations" (Spohr, 2016, p.269).

combined. In common with Spohr, this thesis draws on both approaches to analyse and explain long-run path dependency, periods of path deviating reform and failed attempts at reform.

As funding problems have grown, English policymakers have returned to the garbage can looking for a more sustainable way to fund social care. Ideally the alternative funding solution should be popular, easily implementable, have a relatively low political cost and not require too much policymaker energy to make the change. No sustainable funding policy, approach or institution with anything like these characteristics currently exists for English social care. The alternative funding solutions and institutions that have historically developed are all technically or politically problematic, so the amount of policymaker energy and political capital needed to implement change is high and the likelihood of reform is diminished. Elsewhere, when policymakers looked in the garbage can for an alternative funding approach, the situation they found was much more favourable, the funding reforms introduced have been sustained and the long run policy outcomes are very different. To gain insights into the mechanisms that drive welfare programme reform / non-reform and illustrate the long-run benefits associated with more sustainable funding, this thesis employs qualitative historical comparison. We begin by exploring how the funding of English social care and two other welfare programmes for older people has developed over several decades.

2. A tale of three institutions

At the beginning of the 1980s, English social care, German social care and UK public earnings-related pensions were marginal, non-core welfare institutions funded by pooled local and central government taxation. In all three cases, where policymakers were engaged, they appreciated that the programmes would need to address increasing demand from an ageing population in the decades to come and perceived that the existing policy approach was not well suited to meet that demand.

Social care provision in England and Germany was mostly informal and delivered by friends and family members. Where formal social care was required this was funded by the individuals requiring care. When personal funds were exhausted, provision in both countries was funded by general taxation, and managed locally. The ways in which publicly funded care was provided were however very different. Most non-family social care in England was provided by the state, in Germany formal social care was delivered by charitable and for-profit private organisations. Both care systems had evolved slowly over decades and there was widespread agreement that the level of funding, facilities and care quality provided in both countries was insufficient and inconsistent.

The historical development of UK earnings-related pensions had been quite different, but long run funding sustainability and gaps in coverage were also seen as a problem by policymakers. While non-universal private occupational pensions were introduced in the late nineteenth century and a flat-rate public pension was enacted in 1908, no significant public earnings-related pension scheme was introduced by the UK state until the golden age of welfare⁶ was drawing to a close. The state pension was a key part of the core general taxation funded welfare state and private occupational pensions were well established, but policymakers had left a significant space in the pension savings regime. In the mid-1970s, a political consensus emerged on the need for a public scheme to complement existing occupational provision and the State Earnings-related Pension Scheme (SERPS) was introduced in 1978 as an unfunded, centrally managed, pay-as-you-go scheme that drew mandatory contributions from employers and employees that lacked existing routes to pension saving. The consensus did not last.

Programme reform

All three welfare programmes were reformed by policymakers between 1983 and 1994. English care provision was re-engineered to promote a mixed economy of social care by the Conservative government elected in 1979. By the time the party left office in 1997, most residential care for older people, and a significant portion of formal home care had been outsourced and was delivered by thousands of private providers. The marginal nature of English social care meant that, unlike core welfare areas such as healthcare and education, policymaking was more reactive than strategic, public engagement was relatively low and there were few political constraints on market-based reform. In the late 1970s, individual social security offices started making emergency supplementary benefit payments to fund private residential care. This endogenous policy ‘accident’ was escalated by Conservative policymakers into a national funding approach that transformed the nature of social care provision. In 1983, the government rolled care benefit payments out nationwide with the number of publicly funded private care beds only limited by the number of residents meeting the means-tested financial criteria. A producer driven market structure (Gingrich, 2011, p.17) allowed private residential care operators to determine fee levels, and policymakers also introduced financial incentives to ‘encourage’ local councils to outsource existing provision. Large numbers of new private care providers emerged, and there was a significant outsourcing shift by councils. By the early 1990s, the cost of centrally funded benefit payments for residential care was growing rapidly and care

⁶ Taylor-Gooby (2002, p.597) notes commentators have argued that the welfare state enjoyed a ‘golden age’ of positive provider state growth between 1945 and the early 1970s. Wincott (2013, p.820) suggests that the notion of a golden age of welfare is a “share conventional wisdom” that has elements of truth but offers a “stylised account of ... welfare state history”.

professionals and commentators were increasingly concerned about the paucity of local government funded home care which was not eligible for supplementary benefit funding. Policymakers capped spending and the commissioning and funding of all residential and home care reverted to local government control. The structure of English social care funding has remained broadly unchanged ever since.

In Germany, social care funding reform was enacted in the 1990s. The degree of wider policymaker engagement with the reforms and the focus of changes introduced were however quite different to the English case. During the 1990 general election campaign, Norbert Blüm, Minister for Labour and Social Affairs (and policy entrepreneur), proposed a social care insurance scheme. After an extended debate, a consensus developed around the adoption of a social insurance funding approach, and a long-term care insurance scheme was introduced in 1994. The need to achieve political consensus and the German welfare state austerity agenda of the 1990s shaped the pay-as-you-go, hybrid public / private, defined contribution structure of the scheme. Making use of long-established health insurance funds and associated infrastructure to administer the scheme facilitated rapid implementation and allowed new de-centred funding institutions to be layered on top of existing local government funding. While policymakers wanted to transform the generosity of German social care, there was also a desire to pool social risks, support and encourage family and home care, encourage new providers to enter the market and to stimulate competition between existing providers.

When the Labour government introduced pay-as-you-go public earnings-related pensions in the 1970s, doubts were expressed about the long-run affordability of the scheme. With rising contributions and few benefits payable at first, SERPS was expected to be cash generative to the Treasury for the first two decades of operation but would then become increasingly expensive as accrued pension liabilities matured. In 1985, Norman Fowler, Secretary of State for Social Services, also operated as a policy entrepreneur, proposing that SERPS should be abolished and replaced with mandatory private pension saving. Following opposition from the Treasury, private pension providers, employers and trades unions, Conservative policymakers compromised and announced that SERPS would be reformed rather than replaced. The Social Security Act (1986) reduced the generosity of public earnings-related pensions while offering financial incentives to encourage individuals to switch their mandatory pension contributions into ring-fenced private personal pension funds rather than relying on the unfunded public scheme.

Successful implementation and increasing funding

The welfare reforms introduced in the UK and Germany were built using pre-existing solutions and institutional structures, delivered the main reform objectives of the relevant policymakers⁷ in all three cases and unlocked significantly higher levels of medium-term programme funding. In the 1980s and early 1990s, the environment of profitable private residential care provision with minimal public regulation⁸ engineered by the Conservative government encouraged a boom in English publicly funded, privately delivered social care. The number of residential care and nursing home beds rose from 290,200 in 1980 to 563,100 in 1996, and the share of private residential care beds rose from a third of provision in 1980 to three quarters of provision by 1996 (Laing, 2017, pp.15-16). There was a pause in spending growth after the responsibility for all public social care funding was returned to local government in the mid-1990s and, following an increase in care sector regulation and cost-push pressures following the arrival of the Labour government in 1997, the number of care beds began to decline. As a response, the Labour administration increased local government commissioned social care spending by 5% a year (Simpson, 2017, p.4) between 2000 and 2010, and spending climbed to £18.6bn in 2008 (NHS Digital, 2018, T4) with 1.2m older people receiving publicly funded social care in that year (Burchardt et al., 2015, p.28).

Earnings-related pension reform also delivered on the twin goals of Conservative policymakers who wanted to engineer a significant increase in the level of private pension saving and a reduction in the future cost of public pensions. The reforms introduced were targeted at the self-employed and workers in sectors with historically low levels of pension saving, but personal pensions were very popular, and five million employees switched to private individual pension plans between 1988 and 1993. When combined with those who had opted-out of public earnings-related pensions through an occupational pension scheme, more than two-thirds of the working age population were saving privately for their pension by 1995. This move away from an unfunded public scheme to funded private pensions significantly reduced government pay-as-you-go pension receipts. In 1990, the National Audit Office predicted that the reform would reduce national insurance contributions by £9.3bn between 1988 and 1993 (Disney and Whitehouse, 1992, p.5) a figure that continued to build

⁷ Those policymakers whose initial and continued support was required to deliver and embed welfare reforms are termed the 'relevant policymakers' here and elsewhere in the thesis. In the German social care (consensus reform) case the relevant policymakers were spread across most, if not all, political parties. In the UK earnings-related pension and social care (majoritarian reform) cases the relevant policymakers were all within the Conservative Party.

⁸ Gingrich (2011, p.179) terms this market structure a 'pork barrel' market with private social care providers enjoying a strong market position and rent-seeking from the state.

in the years that followed as contributions were diverted into private pension schemes. The reforms had relatively little impact on public earnings-related pensions paid up to 2011, but projected public spending on earnings-related pensions payable by 2031 was reduced by more than 70% (Budd and Campbell, 1998, p.111) as future pension costs were privatised.

Prior to social insurance funding reform, German social care for older people had a history of residual care funding with relatively few citizens over the age of 65 receiving formal home or residential care. Following the introduction of a mandatory long-term care insurance scheme in 1994, the level of social care insurance funding jumped from €nil to €15.9bn in 1998. Four years after the scheme was introduced, payments were made to 1.8m care recipients, with most opting for cash ‘voucher’ payments to fund either informal or formal care. The introduction of social long-term care insurance also reduced the need for care recipients to turn to taxation funded means-tested payments, and these fell significantly from €6.6bn in 1994 to €2.7bn in 1998 with the number of recipients of stigmatised means-tested benefits also down from 450,000 to 284,000. Following introduction, the level of social care funding from the scheme rose as the wages enjoyed by German employees increased⁹ in the years up to the financial crisis of 2008 and stood at €19.1bn in that year (Federal Health Monitoring System, 2019).

3. Divergent funding paths after the Great Recession

In 2008, the financial crisis in the US led to the bankruptcy of several UK banks and precipitated the largest global recession since the Great Depression. The UK government proposed a £500bn rescue package for the banking sector, reduced interest rates, brought forward public investment spending and introduced temporary cuts in taxation. As a result of measures introduced and the impact of automatic economic stabilisers, the budget deficit rose from 2.9% of GDP (2008) to 10% of GDP (2010). The UK national debt rose from 39% of GDP in 2008 to 72% of GDP in 2011 and continued to rise in the years that followed¹⁰.

Following the 2010 general election, the UK Coalition government announced a programme of financial austerity that aimed to reduce public spending and increase taxation over the next five years. The German economy fared better than many European countries after the financial crisis, but public spending growth there has also been constrained, with the share of national income spent by the state

⁹ The long-term care insurance contribution rate (payable up to a contribution ceiling) was set at 1.7% of wages by German policymakers.

¹⁰ The UK national debt continued to rise at a slower rate as a share of GDP from 2011 until 2017. It has now stabilised at around 85% of GDP (2018) (ONS, 2019a).

falling over the past twenty years and, following a large increase in the national debt between 2008 and 2010, German policymakers have run a succession of government budget surpluses.

The implementation of austerity funding cuts in England was asymmetric. Coalition policymakers limited the impact on core welfare state institutions with the National Health Service and education protected from reductions in spending, and also introduced a 'triple-lock' guarantee that ensured a rising state pension. Local government, the funding channel for public social care in England, was not protected by policymakers and was the area of public spending most impacted by central government austerity measures¹¹.

The period of post-reform expansion came to an end for English social care. All three programmes considered here address areas of growing welfare need and had enjoyed programme growth and increasing funding prior to the financial crisis, but the impact of post-2008 financial austerity was very different. German long-term care insurance payments and the UK public and private pension regime became increasingly generous, while English policymakers responded to rising care need at a time of constrained funding by restricting benefit eligibility and attempting to contain costs.

Growing UK pensions

Average pensioner incomes in the UK have risen much faster in recent years than average incomes for those of working age. This income growth is built on three robust, sustainable funding sources; employment, the state pension and payments received from private pension funds. As the retirement age for women and men has been aligned and raised, the number of older people in employment has increased. The state pension is a legacy universal, defined benefit welfare programme with path-dependent upward momentum, part of the core general taxation funded welfare state and protected by a 'triple-lock' guarantee. As the number of pensioners, inflation or average wages rise, public pension spending increases automatically; real public spending on the UK state pension rose by 31% (up £21.8bn) between 2009 and 2018 (DWP, 2018b, SP3). Private pension schemes are structured¹² and regulated by the state, supported by fiscal welfare, asset-backed and legally protected. Like the state pension, they enjoy path-dependent funding growth; the average level of real private pension income received (from occupational and personal pensions) rose by 39% between 2007 and 2017 (DWP, 2018c, 2.1).

¹¹ UK central government funding for local government fell by more than 50% between 2011 and 2016 (Gray and Barford, 2018, p.542).

¹² Mabbett (2013a) argues that the UK Pension Quality Mark scheme is an example of the government acting as a franchisor to the private welfare state.

Increasing German social care spending

The years that followed the financial crisis of 2008 have also been a period of growing German social care expenditure. Between 2009 and 2017, real German long-term care insurance spending¹³ on social care rose by 72% (up from €22bn to €39bn) (Federal Health Monitoring System, 2019). Minimum benefit levels are dictated by the Federal government and these were increased in 2008, 2010, 2012 and 2015. Provision levels were also enhanced by The First Long-Term Care Strengthening Act (PSG I, 2014) and Second Long-Term Care Strengthening Act (PSG II, 2015) which improved dementia coverage, offered greater funding for respite care, enhanced rehabilitation payments and offered home modification grants. The significant increase in hypothecated social care spending was funded by rising wages and an increase in the mandatory long-term care insurance contribution rate that is automatically deducted from pensions paid and wages earned. This contribution rate was increased from 1.7% to 1.95% in 2008 and following two further increases currently stands at 2.55% of wages payable up to a contribution ceiling.

Falling English social care spending

In contrast to the growth in UK pensioner incomes and rising German social care expenditure, public funding for residential and home care in England fell by 6% in the eight years (2010 to 2018) that followed the Great Recession (NHS Digital, 2018, T4). Fees paid to providers by local councils have been allowed to fall below the 'fair' cost of care (Laing, 2008, p.5)¹⁴ and 460,000 fewer older people (down 38%) received publicly funded social care in 2018 than in 2009 (Burchardt et al., 2015, p.28; NHS Digital, 2018, p.8). Social care for older people remains a secondary objective of the English welfare state with few structural mechanisms to support funding during times of austerity. Provision is fragmented amongst thousands of relatively small and mostly private providers, commissioned by local authorities that are less well financed than core welfare state programmes and funded on a fixed-budget basis from general taxation. As demand has risen the eligibility criteria for publicly funded care has been tightened and payments to care providers have been squeezed. The ensuing care funding crisis¹⁵ threatens the financial viability of care provider organisations and has contributed to increasing

¹³ The figures quoted are in 2017 prices.

¹⁴ While illustrating growing care fee pressures, Laing's 'fair' cost of privately delivered social care includes a level of return on capital that has attracted criticism from some commentators (Hudson, 2016, p.19).

¹⁵ In March 2019, an open letter to the Government from care charities, professional bodies, NHS organisations and the Local Government Association (Local Government Association, 2019) stated that "adult social care is at breaking point", argued that retaining existing inadequate levels of care provision will require an extra £3.6bn each year by 2025 and called on the government to urgently invest in social care.

levels of unmet need and declining care quality¹⁶. When older people cannot secure a residential care place or be supported at home they are often admitted to or remain in publicly funded hospitals. This is more expensive, often delivers worse outcomes and many older people would prefer to be at home.

Waiting for Godot – the sustainable funding debate

There is broad agreement amongst English policymakers of all parties (Independent Age / COMRES, 2017, p.4) that the current social care funding approach is inappropriate and inequitable. In November 2017, Damian Green, First Secretary of State (and potential policy entrepreneur), announced that a green paper on social care reform would be published in 2018 (Green, 2017)¹⁷. He promised that the government would consult widely, not shy away from making difficult choices and attempt to build a broad policy consensus.

The green paper is however much delayed and few working in or commenting on social care expect that sustainable institutional funding reform will result if and when it is eventually published. In the past twenty years, twelve public consultations, green papers, white papers and several independent commissions have considered social care policy. The Sutherland Report (1999) argued that personal social care should be free for all regardless of income, Wanless (2002) proposed changes to how funding needs were assessed, Building the National Care Service (2010) proposed free universal personal care for all, but deferred decisions on how this would be funded until after the 2010 general election, and the Dilnot Commission (2011) recommended a revised means-test and a cap on individual lifetime care spending that would partially pool care costs and encourage the development of a private care insurance market. All of the proposed changes were to be funded by general taxation¹⁸, and none of the key reforms proposed have been implemented. Having promised a Royal Commission on fair social care funding during the 1997 election, the incoming Labour government rejected the major proposal of the commission (free personal care). The first stage of introducing a

¹⁶ There is significant variation in the level of public social care spending across the OECD, with the Netherlands committing 4.3% of GDP to social care while Italy spends just 0.6% (OECD, 2018). Oesterle and Rothgang (2010, p.379) note there is wide variation in stable levels of national social care provision and spending. This suggests that the English social care funding crisis is not driven by the absolute level of public care expenditure (currently 1.2% of GDP), but by the rate of change in public care funding falling well below institutionally expected recent norms. Real social care spending rose by 5% per annum between 2000/01 and 2009/10 (Simpson, 2017, p.4), but has fallen in the post-2008 years of austerity that followed.

¹⁷ The social care green paper has been delayed several times. In March 2019, Philip Hammond, Chancellor of the Exchequer, announced that a review of social care spending would be pushed back until the summer. Paul Johnson, Director of the Institute for Fiscal Studies, suggested that waiting for the green paper was increasingly like Beckett's play *Waiting for Godot* where Godot never arrives (Johnson, 2019).

¹⁸ It was originally envisaged that the National Care Service would be funded by a new inheritance tax but this proposal was dropped.

National Care Service, which promised free homecare for those with the highest need, was enacted by the Labour administration in 2010, but not implemented by the incoming Coalition government. The Dilnot funding reform proposals became law in The Care Act (2014). In the following year, implementation was deferred to 2020, and in 2017 the Conservative government announced that the care cap would be dropped.

Policymakers in England have failed to increase social care funding from general taxation or to introduce a sustainable public or private care financing solution that might deliver rising funding. Even when a social care funding crisis focuses minds, policymakers have been unable to agree on a more sustainable funding approach, one that pools catastrophic social care risks or encourages / requires citizens to take out public or private care insurance. There have been numerous social care funding reform proposals, but the residual, failing local government funding model remains. This inability to address “one of the greatest unresolved public policy issues of our time” (CQC, 2017, p.4) begs a question that is the focus of this thesis:

If a robust funding approach has delivered sustainably funded benefits to UK pensioners and German social care recipients in a climate of on-going financial austerity, and there is widespread agreement that the current social care funding approach is inappropriate and inequitable, why have policymakers consistently failed to introduce a sustainable funding approach for English social care?

4. The argument

In an age of perpetual financial austerity, two very different institutional poles have emerged that deliver sustainable levels of welfare programme funding in England: legacy positive state welfare institutions that joined the general taxation funded welfare state core in the golden age, and more recent non-core welfare institutions where policymakers have engineered de-centred¹⁹, non-taxation funding approaches. Rising pensioner incomes in England are underpinned by both. The popular universal state pension sits at the core of the positive welfare state, and private pensions are funded by robust de-centred funding institutions. Social care for older people is not part of the more generously funded welfare state core and policymakers have failed to introduce a robust, de-centred funding approach. This lack of funding support underpins the English social care crisis.

¹⁹ The thesis considers the rise of de-centred welfare funding in various forms. These includes policy approaches that ‘encourage’ individuals to save for their own welfare, the devolution of funding activities away from central government / general taxation and the privatisation of existing welfare benefits. All of these devolved approaches share a policymaker desire to move away from rowing (centrally funding and providing welfare) in favour of steering (guiding and regulating) the welfare effort.

The golden age of welfare saw the rise of taxation funded, publicly delivered welfare programmes. When faced with rising need, a centralising English provider state mostly chose to row²⁰, and the funding for welfare was divorced from provision. Today, while policymakers have sought to contain benefit spending and the commitment to public provision has been diluted, funding for the established core of popular positive welfare state institutions persists and continues to grow. Spending on social security, health care and education has enjoyed a rising share of national income for decades, and now accounts for around a quarter of GDP, but taxation funded welfare expenditure is focussed on existing institutions and existing policy takers.

New welfare needs that have emerged since the golden age have been addressed very differently by policymakers. As the state has increasingly opted to steer, welfare provider organisations are guided and regulated but not owned, and welfare policy initiatives and reforms are increasingly de-centred. These devolved, fragmented welfare approaches dilute central government accountability for delivering successful welfare outcomes and increasingly include a requirement for non-taxation funding sources. Where devolved post golden age funding institutions have been introduced by policymakers, they tend to be bespoke / institutionally specific and are often crafted by reaching into the policy garbage can and repurposing existing institutions and processes. Policymakers then use legislation and regulatory bureaucrats to steer the reimagined welfare funding institutions that they have created.

The two successful funding reform cases analysed in chapter four demonstrate that when a robust alternative funding institution or market relationship already exists and is repurposed to finance the welfare provision desired by policymakers, this approach can deliver successful programme outcomes. In response to widespread unease about social care provision in Germany, mandatory long-term care insurance was introduced in 1994, and in the UK the State Earnings Related Pension Scheme (SERPS) was converted in the late 1980s from an unfunded positive state public scheme into a publicly regulated, predominantly privately funded, de-centred one. In both cases existing institutional structures and a regulatory state policy agenda drove the politics of reform. The problem, policy and political streams (Kingdon, 1984, p.20) coupled and the scope for institutional bricolage was strong allowing policy entrepreneurs to engineer reform. The relevant policymakers perceived that there was a problem with future funding, broadly agreed what should be done, and there was a relatively low

²⁰ Osbourne and Gaebler (1993, p.25) argue that governments should not deliver services (row) but should empower communities and focus on delivering desired outcomes (steer). Braithwaite (2011, p.217) similarly argues that states provide, distribute and regulate. For him regulation is the subset of overall public governance that steers networks of non-state providers rather than providing and distributing directly.

political cost attached to implementing reform. Policymakers still faced significant opposition from the respective policy communities and had to adapt the proposed reforms, but funding reform was made more likely and mediated by pre-existing widely respected alternative de-centred funding institutions that were a good fit for the agreed future programme objectives of the relevant policymakers and could be layered on top of existing institutional structures relatively quickly. In both cases the financial cost of reform was much higher than continued funding through existing channels, but this was not an obstacle to reform in either case.

Where alternative institutional funding arrangements do not exist or are weak the policy stream is much diminished, introducing a new sustainable funding institution is more complicated and is likely to incur a higher political cost. This suggests that where existing welfare funding institutions are weakest and most needed, robust de-centred funding is less likely to be introduced as the political cost of reform inhibits policymaker action. In situations like this, marginal welfare programmes must rely on public funding alone. Which brings us to the English social care case. Despite a prolonged social care reform debate, English policymakers have failed to move away from residual general taxation funding towards a more sustainable care funding approach. Without recourse to a sustainable funding institution, public social care in England lacks path-dependent mechanisms that automatically increase funding over time. As demographic, socio-economic and cost pressures have risen, systemic underfunding has driven care intensification and a widening care gap. While there is broad agreement that England has a care funding problem, without an obvious alternative funding approach, the relevant policymakers remain torn between very different policy responses. Most English social care provision has been outsourced and increasingly regulated over time, but care funding has failed to move away from the underfunded non-core welfare state paradigm. Half-hearted attempts to promote a private market for social care insurance have failed, leaving individual citizens unable to provide against the risk of catastrophic care costs in old age. With the state reluctant to row, and no obvious existing funding institutions for policymakers to repurpose and steer, a significant market failure remains unaddressed.

5. Thesis structure

After more than two decades of growing social care provision, English policymakers have failed to increase public social care spending since the Great Recession or to introduce or encourage a sustainable public or private funding solution that might deliver rising care expenditure. This thesis employs detailed process tracing and an analytical framework that combines historical institutionalism

with multiple streams analysis²¹ to chronicle the development of English publicly commissioned social care and to analyse the mechanisms that underpin path departing reform / path dependent non-reform. To help interpret persistent funding policy inaction, the thesis also employs two relatively heterogeneous comparator cases. The four chapters that follow this introduction and the chapter discussing research design, analyse the creation, development, centralisation, maturing and more recent de-centring of the UK welfare state that has delivered two sustainable funding poles (neither of which support English social care), compare public social care policy in England with two welfare programmes where sustainable funding reforms have been enacted by policymakers, explore why sustainable English social care funding has not developed historically, and consider English policymaker attempts to address social care funding policy failures today. The contents of these analytical chapters are outlined below.

Welfare state development, maturity and the turn to de-centred welfare

Chapter three maps the welfare state geography that mediates the policy and funding options available to social care policymakers, explores the historical development of English welfare institutions and analyses the impact of the post golden age turn towards publicly regulated de-centred welfare provision. Today's welfare state is a mosaic of institutions that have coalesced over time, often with quite different conceptual and temporal underpinnings (Orren and Skowronek, 1994, p.323). Having developed and matured, the public welfare state is now a major part of the political landscape and existing taxation funded universal programmes tend to enjoy broad public support. In the golden age of welfare, English policymakers made unfunded welfare promises that have broadly been kept. The core legacy welfare state is predominantly funded by general taxation and enjoys an increasing share of public spending, but new post golden age taxation funded welfare programmes are rare. To fill gaps between existing core welfare programmes and the emerging welfare needs of citizens, policymakers have increasingly turned to a devolved, regulatory approach that guides the choices made by individuals and non-public provider organisations. With policymakers often unwilling to use general taxation to fund these non-core welfare activities, this de-centred welfare approach also involves introducing devolved funding institutions or encouraging and strengthening those that already exist. These alternative funding approaches are often bespoke, institutionally specific and built by repurposing existing relationships or institutional structures. Once in place the re-engineered

²¹ The thesis also considers alternative explanations for institutional reform / non-reform and draws upon conceptual approaches and stylized facts that include the golden age of welfare, a maturing welfare state, the Baumol cost effect (Baumol, 2012, p.4), institutional and policy drift, institutional layering and retrenchment theory. The rationale for the research approach adopted is discussed in chapters two and three.

funding institutions then allow policymakers and regulators to guide non-public welfare outcomes without recourse to taxation.

De-centred welfare with sustainable funding

While the financing of English public social care remains unreformed, policymakers elsewhere have enacted sustainable welfare funding reform in relatively marginal policy areas. Chapter four explores two successful, but very different policy reforms that created new sustainable funding institutions to support the welfare needs of older people. The introduction of German long-term care insurance in 1994, with broad cross-party support, saw the creation of a new predominantly public welfare state funding institution. By contrast, the Conservative dismantling of UK public earnings-related pensions in the late 1980s was a move towards greater private provision and opposed by opposition parties. What both cases shared was a relevant policymaker perception that there was a funding problem and a clear pre-reform path to a new devolved funding solution. This allowed policy entrepreneurs to drive reform in both cases. The funding reforms institutionalised sustainable, non-taxation, programme-specific welfare funding and were built using hundreds of de-centred funding institutions which already existed and could be adapted by policymakers at low political cost. These alternative funding institutions were more consistent with the regulatory state policy preferences of the relevant policymakers than the existing positive state funding models, and higher expenditure was less of a concern than moving to a preferred, readily implementable funding approach. When a critical juncture²² emerged, policymakers employed a regulatory approach to policymaking, first repurposing and, in the decades that followed, steering the devolved funding institutions that they had engineered. Having analysed both cases, the chapter then employs process tracing and Mill's method of agreement to generate a set of explanatory variables consistent with successful funding reform and to demonstrate how a de-centred funding institution, once established, can deliver enhanced welfare outcomes over an extended period.

De-centred welfare without sustainable funding

Chapter five considers how decades of policymaker disengagement, past 'accidental' reforms, a lack of strategic thinking on policy, and recent asymmetric local government austerity have left English social care fragmented and without a reliable institutional mechanism to sustainably fund care. The

²² In the two sustainable funding reform cases analysed, policy entrepreneurs had viable policy options available that could deliver radical, long lasting institutional change. Historical institutionalism's 'critical juncture' (the term employed here) and Kingdon's 'window of opportunity' / 'policy window' deliver valuable, complementary insights into the dynamics of policy reform. Both terms are used in the thesis based on the historical / situational context being discussed.

chapter discusses the residual, stigmatised nineteenth-century workhouse, a failed golden age attempt to move social care towards the welfare state core, reforms introduced in the 1980s that 'encouraged' a publicly commissioned, regulated and funded, privately provided care model, and cost containment and care intensification from the 1990s onwards that have morphed into austerity driven funding reductions in the past decade.

Social care for older people is a marginal, local government managed, non-universal area of the English welfare state that is broad in scope but has a relatively narrow clientele and few mechanisms to increase funding over time. Central government policymaker attention tends to be relatively low and the social care landscape is fragmented. While the local government care funding approach today is much the same as it was forty years ago, formal care provision has seen a great deal of change. In the 1980s, the Conservative government outsourced most formal care provision. The marginal nature of the sector allowed policymakers to encourage radical, market-based change to the ways in which care was delivered. While the reforms unlocked investment, policymakers did not address the need to secure sustainable long-term public or private funding. When care providers faced significant cost-push funding pressures in the late 1990s, residential care provision started to contract. In response, the Blair administration increased public funding and slowed the rising regulatory burden but did not introduce a sustainable public funding mechanism or incentivise private care insurance. Following the financial crisis of 2008 and the on-going fiscal contraction that followed it, austerity policies reduced the level of formal, taxation funded, public care provision and damaged the local government funding channel that policymakers have historically relied upon when they want to address care funding problems.

The political and institutional dynamics of English social care allowed policymakers to outsource care provision in the 1980s at little political or public financial cost. Marketisation offered them a ready-made route to institutional development that had not previously been considered. When this ideational window of opportunity opened it offered an alternative delivery approach for English social care that allowed central government to remain disengaged and was more consistent with the policy preferences of Conservative policymakers than the status quo, so provision was outsourced. Sustainable de-centred funding reforms were not seriously entertained by policymakers as there was no obvious institutional route to a non-taxation, de-centred public or private funding approach. Decades of disengagement have left policymakers with few policy levers to steer devolved social care, so central government has employed a regulatory response to the care funding crisis, imposing duties on English local government to ensure appropriate levels of care are delivered, but the scope to raise

council taxes to fund care is limited by central government, areas of greatest need are often areas with the weakest local tax base and the private market for social care insurance in England has failed.

Funding policy paralysis

Chapter six builds on this historical analysis, chronicling growing demands for a more sustainable, long-term funding solution for English social care in response to a persistent, systemic funding crisis. Having announced a green paper on care and support for older people, the Conservative government has repeatedly delayed publication with commentators arguing there are major political and institutional impediments to funding reform. The chapter explores the policy debate in advance of the elusive green paper and draws upon the set of explanatory variables generated in chapter four. English publicly commissioned social care falls within the domain of local government with central government policymakers intermittently involved when regulatory or funding problems arise. Where policymakers have engaged with social care, they find that a decade of austerity has exposed wicked institutional problems with local government funding and reduced public care spending while per capita costs and demand have both risen. Some of the resultant care gap has been filled by informal and private formal care, but there is a growing level of unmet need. England does not have a functioning private social care insurance market and public policy lacks strategic direction. Having reviewed the failing funding regime, the chapter employs Mill's method of difference to isolate explanatory variables common to the two successful funding reform cases, but not present in the non-reforming English social care funding case. This comparison suggests that mature, well embedded existing institutions, a lack of relevant policymaker consensus on the most appropriate reform solution and no obvious alternative de-centred funding solution in the policy garbage can are key drivers of non-reform, so these linked variables are explored at length.

Sustainably funding a marginal welfare programme

Why does English social care for older people face a persistent funding crisis?

Chapter 2. Research design and outcomes

This thesis is built around a qualitative analysis of the historical development of English social care institutions within a maturing welfare state, and an exploration of how past policy choices mediate current social care options, underfunding and policy inertia. A lack of policymaker action on funding reform, despite numerous policy reviews and recommendations, gives us reduced scope to analyse decisions that have been made, and suggests that adopting an institutional approach may deliver useful insights into non-reform and the mechanisms driving more gradual endogenous change. The analysis undertaken employs detailed process tracing to explore funding policy choices made and not made, how social care institutional structures have developed and failed to develop and how they constrain current policy choices. To interpret persistent funding policy inaction, the thesis utilises two relatively heterogeneous comparator cases where sustainable funding reforms were successfully implemented by policymakers, interviews, observation and document analysis.

Chapter two sets out the rationale for the qualitative, comparative research approach adopted, discusses the data sources deployed, summarises the broad research outcomes generated and reflects on the research journey undertaken.

1. A qualitative approach

The desire for a deeper understanding of the drivers of social care development suggests a qualitative analysis of how care institutions have developed. The English welfare state is a complex of sometimes incoherent, overlapping institutions that have evolved over more than a century. Past decisions, path dependency and institutional intercurrency channel and constrain institutional and policymaker action. The need for welfare is global but national programmes that cater for older people can look very different. Society and culture shape the welfare state institutions that evolve. Once established the welfare state then plays a significant role in shaping society and culture. Causation operates in both directions and the processes involved are iterative and complicated.

A wide variety of research techniques are employed by social science researchers. These fall into three broad functional categories: qualitative, quantitative and a 'mixed methods' combination of both approaches. Bryman (2012, p.35) discusses the merits of qualitative and quantitative research arguing that quantitative research often starts with a theory and tests it with hard empirical data, analysis tends to be static and often leads to generalisation. Qualitative research starts with data and grounded theories emerge from the empirical results. Qualitative data is considered over time, is rich, contextual and delivers a greater understanding of the processes at work. Hall (2016, p.31) similarly asserts that

quantitative approaches tend to ignore historical texture and often assume that politics is driven by timeless, relatively independent explanatory variables. Today's increasingly mature, de-centering welfare state does, however, provide a very different policymaking setting to the golden age of post-war centralised command-and-control welfare state development. The complexity, bidirectional causality and changing nature of the welfare state have led many political scientists to use a qualitative, historical and institutional approach to investigate developments in welfare provision over time (Lynch and Rhodes, 2016, p.417).

Small-n institutional comparison

In the past forty years English social care *provision* has been transformed. Despite much debate and many policy recommendations, today's social care funding regime is, however, little different from the approach seen in the late 1970s. To explore the reasons for funding policy inertia the thesis compares policy drift in English social care funding with two cases of successful de-centred welfare funding reform elsewhere.

Lijphart (1971, p.683) argues experimentation is the optimal research approach but that it is often not available to social scientists, who must rely on either statistical or comparative methods. Where statistical (quantitative) methods are not appropriate, as argued above, he suggests that the best route for analysis is the comparative method between cases. Lijphart acknowledges problems with this method but suggests that these can be addressed by the careful structuring of the research problem and using Mill's comparative methods to isolate key explanatory variables. He goes on to outline a variety of case study types, ranging from descriptive studies to hypothesis generating case studies that seek to formulate grounded theoretical positions. With a research approach focused on achieving rich explanatory content and the creation of potentially generalisable outcomes, the institutional comparison that follows falls into the hypothesis-generating category. The desire to generate thick description, to have comparator cases to assess the relative performance of the English social care funding regime and to highlight potential explanatory variables, suggests a comparison between English welfare state programmes that cater for older people or an international comparison of social care programmes. This thesis utilises both comparative choices. Qualitative small-n comparison can deliver an intimacy of analysis that is not available with large-n statistical studies. Deep understanding of the cases is required to make the comparisons effective and the approach demands detailed process tracing rather than the dataset observations of regression analysis.

Case selection and Mill's joint method of agreement and difference

To enhance the analytical leverage of the comparisons made, two relatively heterogeneous cases that feature sustainable funding reform in welfare programmes that cater for older people were sought. This approach to case selection allows Mill's comparative logic to be applied in two stages to control for most potential reform explanations and to isolate relatively few explanatory variables that are consistent with a failure to introduce sustainable funding in English social care and successful funding reform in the comparators.

A number of international social care funding reform cases could have been chosen. The Netherlands introduced long-term care insurance in 1968 as did Germany in 1994, Japan in 2000 and South Korea in 2008. Within the UK, recent funding reforms that have improved welfare outcomes for older people include earnings-related pensions reform from the 1980s onwards, the 'triple lock' that guaranteed rising state pensions from 2011, and the introduction of universal general taxation funded personal care in Scotland in 2002. English social care is a case of long-run policy inaction where post golden age policymakers are actively (and unsuccessfully) looking for *sustainable* funding reforms. So, successful cases of sustainable, post golden age welfare funding reform were sought as comparators, benchmarks and potential reform implementation templates for English social care. It was also noted that more recent reforms would deliver fewer post-reform developmental insights.

Having reflected on the case selection criteria, the introduction of German social long-term care insurance in the mid-1990s and funding reform of UK earnings-related pensions in the late 1980s were chosen²³. All three welfare programmes (the comparators and English social care) were transformed in the post golden age 1980s and early 1990s. While English policymakers introduced reforms that outsourced most public care provision, they failed to institutionalise a sustainable funding approach. The two comparator cases where policymakers enacted sustainable funding allow us to explore how pre-existing alternative institutional arrangements and the situational aspects of policymaking mediate funding reform / non-reform, highlight mechanisms that have delivered sustainable programme funding and illustrate the long-term benefits of sustainable, predictable funding. Both comparator welfare programmes enjoyed successful, sustainable funding reform but they share relatively few common endogenous explanatory variables. The welfare cases operate in different countries (Germany / UK), political systems (consensus / majoritarian), public welfare funding

²³ The UK 'triple lock' pension guarantee and long-term care insurance in the Netherlands, while not selected as comparators, both feature mechanisms that *automatically* link future funding levels to future need / demand and are also discussed in the thesis. Free personal care in Scotland (from 2002) was a promised extension of future benefits that lacked an associated sustainable funding mechanism and was therefore not selected.

traditions (de-centred social insurance / centralised general taxation), welfare state types (conservative / liberal) and are focused on different welfare programmes (social care / earnings-related pensions).

Using process tracing and Mill's method of agreement allows us to highlight common explanatory variables that are consistent with sustainable funding reform in both of the comparators²⁴. As the two welfare cases are quite different the common variables generated are focused on exogenous environmental factors (these include neoliberalism, population ageing and the rising relative cost of services over time – the Baumol effect (Baumol, 2012, p.4)), drawing on multiple streams analysis, political calculus variables around the reform decision itself (a problem that relevant policymakers perceive needs to be resolved, policy consensus amongst relevant policymakers and political opportunity) and an already available alternative funding institution consistent with the belief systems of the relevant policymakers and popular with citizens.

Having generated a set of explanatory variables consistent with sustainable funding reform, the thesis then uses Mill's method of difference and process tracing to isolate explanatory variables that are common to the successful funding reform cases but are not present in the non-reforming English social care case. This approach focuses our analysis on reform event variables within the cases themselves and the availability of an alternative funding institution, as the exogenous explanatory variables (environmental factors like neoliberalism or population ageing) are common to all three cases so can't explain funding reform variation.

We can define this approach as follows.

Set A – explanatory variables consistent with German social care funding outcomes (1990s)

Set B – explanatory variables consistent with UK pension funding outcomes (1980s)

Set C – explanatory variables consistent with English social care funding outcomes (Today²⁵)

We are looking for explanatory variables that are common in Set A and Set B (i.e. variables that are consistent with funding reform) and different in Set C.

Using Mill's method of agreement and process tracing, we create a set of explanatory variables consistent with funding reform in the comparator cases. This is the intersection of sets A and B.

²⁴ This comparison between the two comparator cases is documented in chapter four.

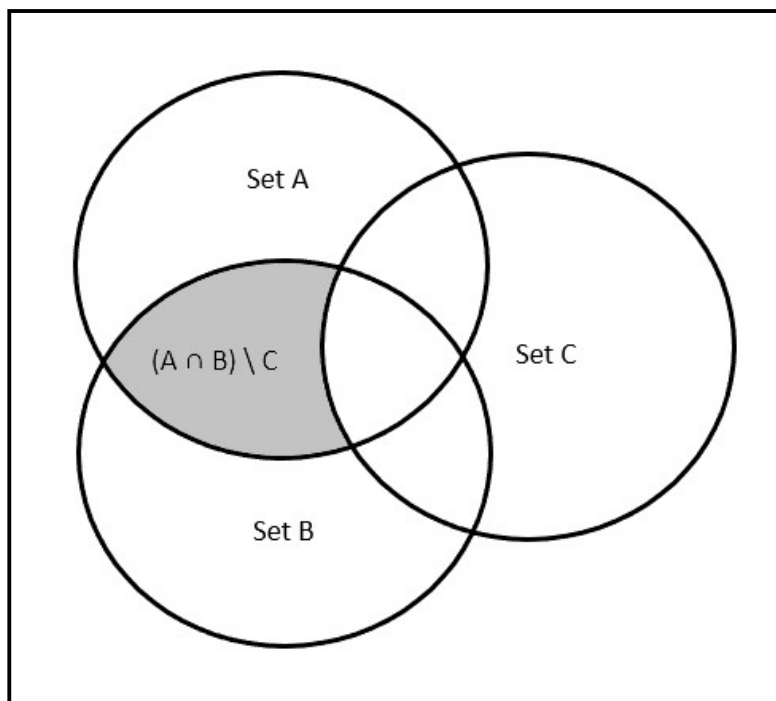
²⁵ The thesis analyses English social care funding explanatory variables in 2019 and also considers how the variables have developed (and failed to develop) since the 1980s.

Counterfactual explanatory variables set = $A \cap B$

Then using Mill's method of difference and process tracing, we isolate explanatory variables that are consistent with funding reform in the relatively heterogeneous comparator cases and are not present in the English social care funding case. This is the set difference of C in $(A \cap B)$ and is defined and shown diagrammatically in Figure 1 below.

Drivers of funding reform explanatory variables set = $(A \cap B) \setminus C$

Figure 1. Drivers of funding reform explanatory variables



2. Data sources

The thesis employs three primary data collection approaches to better understand how the historical development of social care funding institutions and the wider welfare state mediate current policy choices, the fragmented nature of care funding and provision, the operational realities of social care funding by local government and ways in which local councils, care providers, the National Health Service and housing associations work with each other and with central government; these are elite interviews, observation (with engagement) and document analysis.

Tansey (2007, p.766) argues that elite interviews can be used to corroborate evidence from other sources, demonstrate how key individuals interpret processes and decisions made, and to fill gaps where documents are not available. Here elite semi-structured interviews are used to support secondary and statistical data, explore relationships between care institutions and local and central government and better understand how 'wicked' problems with the English social care regime have helped perpetuate systemic underfunding and reduced the scope for funding reform. Interviews were conducted with senior staff working in care provision, local councils, care commentators interested in social care funding and provision, a former senior Department of Health civil servant and a Member of Parliament who is a member of the Housing, Communities and Local Government Select Committee. Interviewees were sourced using targeted non-probability (snowball) sampling. Each interviewee was sent a bespoke 'agenda' in advance, interviews were between one and two hours in length and in some cases extended over two or more meetings. Interview notes or recordings were generated and used to prepare detailed transcripts that were shared with interviewees and revised to include any follow up comments. This generated rich interview data and led to a variation in research approach which is discussed later in the chapter.

The research programme also involved engagement with a Local Government Association fair funding event where council finance managers discussed the current and new local government funding models at length, a strategic forum for community assets and social enterprises and observing the Citizens' Assembly on Social Care (Involve, 2018) which was convened as part of a joint inquiry into the funding of adult social care by the House of Commons Housing, Communities and Local Government Committee and the Health and Social Care Committee (House of Commons, 2018).

Wesley (2014, p.142) argues qualitative document analysis delivers valuable research insights when the analysis undertaken accurately represents documents that are both useful and reliable. In January 2018, the joint inquiry into the funding of adult social care generated a large number of potentially useful, reliable documents when written submissions were invited to propose how social care could be sustainably funded for the long-term and how a public and political consensus on funding policy change might best be achieved²⁶. Submissions received by the inquiry were reviewed, aggregated and used to generate policy community summaries by organisational type. Social care funding discussions with a local councillor and former member of the council executive also centred on policy deliberations around the council budget reference document which was analysed in depth. Other

²⁶ The inquiry received 178 written policy community submissions from associations and trade bodies, care providers, carer and care staff organisations, individuals, local councils, interest groups and charities, professional bodies and public bodies.

primary sources include Labour and Conservative party manifestoes, UK government white and green papers, House of Commons and House of Lords committee reports, Royal Commission reports and policy papers published by various organisations. Statistical data has been drawn from the Department of Work and Pensions, German Federal Health Monitoring System, Institute for Fiscal Studies, Laing Buisson, National Health Service Digital, Organisation for Economic Cooperation and Development, Office for National Statistics and the World Bank. Secondary sources include academic journal articles, books, working papers, conference papers, newspaper articles, PhD theses and conversations with academics and commentators with an interest in social care funding reform.

3. Research outcomes

Broad research themes that emerged from the interviews, observations and document analysis undertaken are detailed below²⁷. These focus on how persistent policymaker inaction allowed a wicked funding policy problem to develop, analyse how austerity increased social care fragmentation and systemically damaged the existing local government funding channel (prompting a search for an alternative funding approach), the level of central government disengagement with how social care is commissioned and delivered (leaving the social care policy community driving the policy stream), and the lack of policymaker clarity about how English social care funding can best be reformed.

The interview data gathered suggests that while there is widespread political support for doing ‘something’ to make social care funding more sustainable in the long term, few working in and around social care expect that any significant reform is likely. A decade of austerity has damaged the ability of local government to improve care provision and highlighted the wicked funding problems that English policymakers face, but Whitehall struggles to manage or engage with those who commission and deliver fragmented publicly funded social care, leaving legislation and regulation as the major policy levers available to central government. Many of those operating in social care are wary of the National Health Service, suggesting that integrating health and social care budgets may not deliver improved social care outcomes. Observing (with engagement) a voluntary, community and social enterprise forum (Interviewee 028, 2018) and a ‘fair funding’ review session for local government finance staff (Interviewee 030, 2018) similarly demonstrated how remote central government is from local council strategy, spending decisions and (increasingly devolved) social care provision. On-going austerity has required local government to move from care provision to care commissioning to (where practicable) facilitating care by community assets. This transition has further fragmented provision

²⁷ Individual inquiry submissions and interviews are cited in the analysis of the development of English social care in chapters five and six.

and made it increasingly remote from central government. Local government is also keen to minimise funding hypothecation to maximise operational flexibility. This led to a “bonfire of ringfenced funding” (Interviewee 030, 2018) that gave councils greater scope to reallocate funding and further reduced central government influence over their spending decisions.

To better understand how the social care policy community views the current social care environment, submissions to the joint inquiry into the funding of adult social care (House of Commons, 2018) were analysed and coded. It is clear that many of those who submitted are deeply concerned about persistent policymaker inaction, arguing there is a real disconnect between those operating within the care system, the concerns of policymakers (who are characterised by some as being more focused on the negative impact of higher taxes) and, often disengaged, citizens. Many also suggest that, if not consensus, reasonably broad political agreement and cross-party working is desirable to deliver the staged, systemic funding reform process that will be needed across more than one parliament (King’s Fund, 2018). The submissions highlight a growing care gap, per capita public funding levels that have fallen below the ‘fair’ cost of care (which undermines market sustainability, investment and innovation), a lack of support for family and friends who are carers, and care staff who are underpaid, marginalised and lacking development opportunities. There is a widespread desire for a sustainable, predictable, easy to understand and explain, long-term funding solution for social care that will link levels of future provision with demand, an appreciation (amongst those who have engaged with how reforms might be implemented) that the mechanisms to deliver such a system have yet to be created, and a feeling that policymakers need to have an honest and open debate with the public about the importance (and cost) of well-funded social care.

4. The research journey

The analytical approach employed in this thesis evolved as the research programme engaged with the three selected case studies. Initially the explanatory focus was historical institutionalism, drawing on punctuated equilibrium, critical junctures and retrenchment theory. With persistent policy inertia, despite a clear care funding problem and an expressed preference amongst English policymakers (and the wider policy community) for funding reform, it became apparent that combining an analytical framework that predicted path-dependent policy equilibrium with the situational decision making insights of the multiple streams approach (Spohr, 2016, p.257) could deliver valuable insights into why choosing care funding path departure has been so difficult for policymakers.

The research approach was also revised as the thesis developed. Having settled on historical institutionalism and scoped the project, qualitative case comparison and elite interviews were chosen as the primary research methods. The interviews began with members of the wider social care community to gain a deeper understanding of the nature of the funding problem and then moved on to commentators and central government policymakers. Having interviewed two social care commentators (Interviewee 023, 2018; Interviewee 029, 2018), a former senior civil servant (Interviewee 026, 2018), an engaged MP (Interviewee 031, 2018) and presented to (and answered questions posed by) a group of engaged MPs (Glendinning and Wills, 2018b) it became increasingly apparent that those interviewed believe that sustainable social care funding reform is blocked in the policy stream. Solutions proposed by policymakers often fail to take account of the historically embedded complexities of the English social care system and the wicked dynamics of social care funding that their long-term disengagement has allowed to develop. This means that “there are no clear solutions and no quick fixes” (Interviewee 023, 2018). While partisan policymakers have failed to broker a cross-party compromise on social care funding, reforms are not being stymied by current non-engagement or low issue salience, but because years of past non-engagement and blame sharing have created a ‘wicked’ disengaged policy environment that prospective policy entrepreneurs and policymakers struggle to address. To engage with these reform blocking issues, a choice was made to turn to an analysis of documents submitted to the joint inquiry into the funding of adult social care to gain a broader understanding of the systemic problems English policymakers face in the social care policy stream²⁸.

²⁸ Spohr (2016, pp.268-269) argues path deviating reform is contingent on four factors: a new policy approach needs to emerge in the policy stream, the grip of any technocratic policy community that dominates the policy stream needs to weaken, a window of opportunity has to open and policy entrepreneurs need to act. The (blocked) English social care policy stream is dominated by a well-embedded policy community. An analysis of 178 funding inquiry submissions delivered valuable insights into the structure, goals and agendas of this community.

Sustainably funding a marginal welfare programme

Why does English social care for older people face a persistent funding crisis?

Chapter 3. Welfare state development, maturity and the turn to de-centred welfare

Two successful funding poles have emerged in the UK that deliver the levels of sustainable, long-run funding many policymakers and commentators argue underpin a successful welfare programme. They are separated by time, and neither support social care in England. In the post war golden age of welfare, UK policymakers created a very visible, popular, taxation-funded positive welfare state core. More recently, when policymakers look to address emerging welfare problems, they increasingly turn to non-core welfare institutions supported by de-centred, non-taxation funding. In the first analytical chapter of the thesis, we explore the historical development of the UK welfare state, asking why a very different policy approach was deemed to be more appropriate in the past, why legacy approaches have persisted and how new devolved welfare funding and provision solutions have emerged.

1. Introduction

The welfare state (public and private, visible and hidden²⁹) is the primary mechanism by which mixed economies redistribute resources from those that control them to those that need them. It is also one of the fundamental drivers of societal growth and development. Education for all, universal healthcare, social insurance (for the individual) and counter-cyclical benefit spending by governments (for the economy) can help deliver more stable lives and economies. An effective welfare state has the potential to make social citizens increasingly healthy, productive and prosperous. Societies also need mechanisms that provide for older citizens as they become less economically active. This requires resources to be transferred either between generations (pay-as-you-go pensions and taxation funded benefits) or across time within the same generation (funded pensions).

Developed nations faced with the requirement to provide welfare resources to those in need have evolved a wide variety of service delivery and funding methods, and the approaches preferred by policymakers have changed significantly over time. The welfare goals of the state are not achieved through government spending alone, and the definition of need and the scope of wealth redistribution have expanded over time. Welfare states have always operated in partnership with individuals and non-state providers and utilised a variety of indirect policy methods. These 'hidden' methods include incentivising personal provision, regulatory approaches, and the re-engineering of existing market

²⁹ Howard (1997, p.3) distinguished between the directly funded and controlled visible welfare state and the hidden welfare state, arguing that the visible welfare state operates in conjunction with a hidden taxation-funded (via tax deductions) welfare state that part funds private provision and wider welfare society.

relationships to make outcomes more equitable. This variable welfare landscape lends itself to comparative cross-national analysis, and the literature suggests that welfare state objectives, methods of delivery, funding and resource allocation decisions are shaped by long-standing national institutions and cultural preferences. Once public welfare states have grown and matured, they develop strong institutional characteristics that make them resistant although not impervious to change and retrenchment. Governments are also moving towards governance approaches that may inhibit policy flexibility and, in many countries, a more neoliberal agenda that prefers the state to spend and, where possible, do less. As society ages, family structures evolve, and more women enter the workplace, the core public welfare state struggles to remain aligned with emerging welfare requirements.

There are various approaches that we might employ to help us to explore how welfare states have developed from humble beginnings to become the primary area of government activity. A developmental approach might emphasise the ways in which capitalism drives increasing welfare need while undermining traditional methods of meeting that need. Myles and Quadagno (2002, p.39), however, assert that;

“industrialization is not destiny ... politics and political institutions matter for welfare states”.

This is the perspective taken here. The rise of capital transformed societies, but national political institutions have responded with very different welfare regimes. Welfare states are a mosaic of mostly mature, relatively stable institutions that have developed over time with often very different conceptual and temporal underpinnings. This “non-simultaneity of origin” (Dodd and Jillson, 1994, p.18) is inescapable, but reduces the overall coherence of welfare provision. The process of piecemeal institutional development has resulted in a hybrid UK welfare state that supports older people with Beveridgean universal public subsistence cash benefits (the flat-rate state pension), state-guided private cash benefits (personal and occupational pensions), Marshallian ‘reasonable maximum’ core public benefits-in-kind (the National Health Service) and marginalised ‘Poor Law’ public benefits-in-kind delivered by local councils (means-tested social care).

Welfare states are also a major part of the political landscape, and existing universal programmes tend to enjoy broad public support. While popular visible welfare institutions enjoy an increasing share of overall public spending, structural rigidities mean that as needs change welfare states can be slow to reallocate resources to those most in need. Past policy decisions constrain current policy options and inertia, policy drift and the strength of welfare state insiders limit institutional flexibility. Entrenched

welfare programmes from the past can crowd out newly emerging welfare needs as welfare state insiders dominate welfare provision to the detriment of new claimants.

Bonoli (2000, p.30) asserts that the welfare state policymaking literature has long focused on two core developmental questions: why do we have welfare states and why are they so different? He explores ways in which the questions have been answered and how the relative importance given to each question has developed as the welfare state has matured and the economic, demographic, and social environment have changed. In the 1960s and 1970s, as visible public welfare states developed, the functionalist logic of industrialisation approach (Cutright, 1965, p.547) demonstrated that industrialisation was associated with increased social provision and asserted that economic development was the key driver of welfare state expansion. As welfare states matured, attention turned to the significant differences that have emerged between welfare states in industrialised countries with similar levels of economic development. The power resources (of labour) model (Korpi, 1983, p.4) suggested that the structure and distribution of entitlement between classes and level of redistribution achieved were as important as the absolute level of welfare effort when attempting to explain welfare state development. This school argued (and demonstrated empirically) that a consistently strong labour movement and electorally successful left-wing parties are associated with greater levels of overall public welfare effort and labour de-commodification.

Here we ask a third developmental question: why are welfare programmes within a single welfare state so different? In the past twenty-five years, a comprehensive programme of institutional welfare state research has emerged (Lynch and Rhodes, 2016, p.419) as scholars seek to interpret an environment of mature welfare states, attempted retrenchment, and the power of broad constituencies of existing policy takers. The rise of new institutional approaches in the 1980s brought the study of institutions back into the mainstream of political science. Schmidt (2009, p.126) suggests that four valuable methodological approaches have developed following the institutional turn and can be deployed to explore how existing institutions mediate policy choices: rational choice, historical, sociological and discursive institutionalism. She argues (Schmidt, 2009, p.138) that each of these approaches employs a different “logic of explanation”. For rational choice institutionalism this is rational calculation, for sociological institutionalism it is cultural appropriateness, for discursive institutionalism it is coordination and communication, and for historical institutionalism it is path dependency. Analysis of the English social care funding case suggests that the explanatory framework used needs to explain policy inertia, pockets of systemic underfunding and the seemingly dysfunctional logic of the UK welfare state. The current social care funding approach is difficult to characterise as rational, culturally appropriate or well communicated or coordinated, but

conceptualising care institutions and funding arrangements as historically determined structures, practices and rules that mediate current policy choices is consistent with the English research data. While also considering ideational and situational explanations for reform / non-reform, we therefore begin our analysis by drawing on the historical institutionalist welfare state scientific research program (Lynch and Rhodes, 2016, p.419) that seeks to interpret an environment of mature welfare states, attempted retrenchment and the power of broad constituencies of existing policy takers.

In the next section, we explore why welfare states are needed and the various welfare state types that have evolved across Europe. This analysis demonstrates the breadth of welfare approaches and objectives that emerged during the golden age ascent of welfare. A historical review of the development of a hybrid social democratic / liberal welfare state in the UK then provides national context and explores long-standing institutional and cultural issues. The importance of ideas in the development of welfare provision is also considered with a focus on the continuing influence of Beveridge. Section three argues that the visible welfare states of Europe have matured and are dominated by existing policy takers and analyses the impacts of attempted welfare state retrenchment. Finally, the chapter discusses ways in which policymakers operating under financial constraints and employing neoliberal policy strategies (Majone, 1997, p.140) have attempted to keep the welfare state relevant beyond the taxation-funded positive state core by focusing on de-centred regulatory welfare, state-guided private markets and outsourced provision.

2. The developing welfare state

For much of human history markets and the profit motive were marginal to the daily lives of most people. In pre-capitalist societies, almost all resource allocation was organised within the family or by the community. Polanyi (1944, p.108) argues that in feudal societies welfare resources passed from those who could generate them to those in need without recourse to the market. While critics have argued that such societies were very far from ideal, being profoundly unequal and undemocratic, where communities were broadly self-sufficient, markets (and the state) played a marginal role.

What are welfare states for and why are they so different?

For Polanyi welfare within the family and community are natural human processes. The creation of a market society and 'free' markets, in contrast, required concerted government action, regulation and the introduction of regulatory institutions. To facilitate competition and market efficiency, capitalism also required land and labour to be transformed into commodities that could be bought and sold. To achieve this goal required political action to remove or marginalise existing non-market structures

that would limit the efficient working of the market. The removal of these long-established welfare mechanisms and social structures did not, however, remove the requirement to redistribute resources generated to those in need. The industrial revolution generated a huge increase in wealth, but market society required new non-family, non-feudal mechanisms to invest in human capital and ensure that wealth generated flowed to those with welfare needs. Market society needed the mechanisms of the welfare state.

Across the industrialising world, welfare states gradually developed to meet similar needs in a wide variety of countries. Until relatively recently, with the advent of EU regulatory involvement in welfare provision (and much else), they had not been subject to significant supranational forces that might cause programme convergence, so very different welfare state types emerged. These national welfare state types have different organisational and cultural perspectives on what a welfare state should and shouldn't do and how programme outcomes should be funded and delivered. Some welfare states focus more on the young and some more on the old, some have a more universal, egalitarian approach to benefits and care given while others focus more on means-tested residual methods. Some operate on the premise that the state should intervene where there has been market failure, while others argue for active de-commodification and labour market regulation to achieve social justice. And, some are predominantly funded by centralised, pooled general taxation while others have long relied on de-centred, hypothecated social insurance.

To better understand this variation in welfare provision and funding approaches we start with Esping-Andersen's *Three Worlds of Welfare* (1990). The work merited a special issue in 2015 of the *Journal of European Social Policy* on the 25th anniversary of publication (Emmenegger, Kvist and Marx, 2015, p.3). Esping-Andersen focuses on the "fictitious" commodification of work that Polanyi (1944, pp.71-80) suggests is an essential factor in the development of capitalism, arguing that labour power and the ability of workers to forge broad alliances dictate the nature and size of the welfare state that emerges.

Welfare state types

Esping-Andersen (1990, p.47-54) asserts that the primary role of the welfare state should be to ameliorate the excesses of the market by creating modern welfare mechanisms that can, at least in part, begin to de-commodify the lives of workers. He contends that the true test of a welfare state is that all citizens, and not just those with significant wealth, should be able to live without recourse to the market.

Marshall (1950, p.17) argues that citizenship has developed progressively over time to encompass first civil, then political and increasingly social rights for all citizens. For him, welfare forms part of the social contract between individuals and society where citizens give up some of their freedoms in exchange for the protection of their social rights. All should have the right to a level of income and welfare provision that keeps them fully engaged with wider society, healthy and educated. Esping-Andersen (1990, p.21) takes this notion of broad social rights for all citizens as the defining concept of a modern, progressive welfare state. Where such social rights are legally enforceable, the welfare state becomes an active agent of de-commodification, delivering broad universal benefits to all based on citizenship rather than residual benefits for the unfortunate few based on need. He argues that such a regime should deliver welfare publicly without recourse to the market and make full employment the focus of economic policy, as this significantly enhances the power of workers in the labour market (Kalecki, 1943, p.326).

While accepting that all welfare states are hybrids that feature a variety of ways of delivering welfare, Esping-Andersen (1990, pp.26-29) sought ways to categorise welfare states into broad national types. He created a weighted index of pensions, sickness benefits and unemployment insurance for eighteen developed European countries to capture the level of de-commodification achieved and found that states coalesced into three groups. Esping-Andersen argued that his results demonstrate that the evolution of the welfare state has not simply been a 'whiggish' (Powell and Hewitt, 2002, p.173) linear improvement over time, but that three very different welfare state regime types have developed. He terms the regimes (in order of labour de-commodification) social democratic, conservative, and liberal.

Social democratic, conservative and liberal welfare states

The *Three Worlds of Welfare* argues that the primary motivation behind conservative regimes, which includes countries such as Germany and Italy, is to reinforce and protect pre-capitalist non-market social structures and hierarchies. With funding that is predominantly via devolved, mandatory occupational social insurance with some taxation³⁰, countries that fall into this welfare state type traditionally employ de-centred, non-state, non-market, pre-capitalist institutions in the delivery of welfare (provider institutions include the church and charitable organisations). Regimes of this type are corporatist and resistant to social change. The total non-family welfare effort also tends to be

³⁰ German citizens benefit from five contributory insurance funds that reduce the social risks they face by pooling the cost of provision. These are managed by devolved (there were 109 public health funds in January 2019), but highly regulated, funding organisations. The funds cover unemployment, ill health, old age, disability and long-term care. Italian social insurance provides similar contributory benefits, but this excludes health care which has been funded by general taxation since 1978 following scheme insolvency in the 1970s.

lower than in the other two types, and the family with a male breadwinner remains a key focus of care provision for children and older people (Warburton and Jeppsson-Grassman, 2011, p.182).

In contrast to conservative welfare states, liberal and social democratic regimes are more aligned with gradual social change, but fundamentally different in the ways in which they deliver welfare above the basic requirements of citizens. Esping-Andersen (1990, p.26) argues that the role and welfare state clientele status of the middle class is a key factor in national welfare state development. In liberal residualist regimes, such as the USA and Australia, the middle class tends to look to the market to meet their welfare needs beyond the basic level. Where the regime is a universalist social democratic one, with public benefits that vary to take account of past earnings, the middle class are much more likely to look to the state. Indeed, Esping-Andersen (1990, p.103) suggests that social democratic regimes deliberately use political power to crowd out private provision, designing welfare programmes that consciously engineer higher levels of social solidarity. While differing in the ways in which welfare is delivered, the liberal and Scandinavian social democratic welfare states share various welfare outcome traits in common. On measures of total (public and private) welfare spending, labour participation rates and the level of welfare de-familialisation, the social democratic and liberal welfare models have much in common. The dimensions of welfare state analysis on which they differ are the level of income redistribution achieved and the mix between private and public welfare funding and provision beyond a residual minimalist safety net.

Interestingly, and not particularly surprisingly, if we view minimising the level of commodification and retaining the importance of de-centred, pre-capitalist social welfare institutions like families, churches and occupational guilds as a key aim, the conservative, corporatist welfare model is most successful and achieves very different outcomes to the liberal and social democratic models. Esping-Andersen (1990, p.13) argues that the level of industrialisation, the political power of labour and the rise of capitalism itself had little impact on the type of welfare state that emerged in a nation, as all these variables are broadly similar across most of Western Europe. His explanation for different regime types is focused on the availability of broad, enduring political coalitions that consistently support the development of the welfare state over an extended period and the ways in which the structure of past reforms channelled the welfare needs of the middle class and built broad social solidarity.

National typographies obscure programme-level variation

The typography developed by Esping-Andersen has been criticised for being focused on cash benefits alone (the index included unemployment benefit, sickness benefit and pensions but no benefits-in-kind) and ignoring non-European regime types. Welfare states are also a complex of sometimes

contradictory welfare programmes that have evolved over time and individually may not conform to regime type categorisation. When Scruggs and Allan (2006, p.69) replicated the research of Esping-Andersen, they found “little evidence of national regime coherence across ... (welfare) ... programmes” within a single welfare state. Another telling critique is that the typography focuses on the status of welfare state insiders to the exclusion of newly emerging potential welfare recipients. Hacker (2009, pp.389-390) suggests that Esping-Andersen’s approach views the welfare state as a vehicle for male workers to secure greater levels of social protection from the market. He argues that focusing on class and de-commodification de-emphasises the ways in which the welfare state can also de-familialise, giving women (who may wish to be commodified) a greater choice in how they live their lives, the importance of education services in developing human capital and the ways in which the welfare state provides healthcare and other services for older people. Powell and Hewitt (2002, p.38) go further and suggest that, in the UK context at least, the primary focus of the welfare state has not been the de-commodification of labour. They argue that the rise of the welfare state in the 20th century, and the transition from residual local provision to universal national welfare saved citizens not from the market but from the Poor Laws and the stigmatisation that was attached to them. For Powell and Hewitt, the UK welfare state de-pauperised workers.

Various welfare state typographies were proposed after *Three Worlds of Welfare* was published (Ferrera, 1996; Bonoli, 1997; Korpi and Palme, 1998). These were reviewed by Arts and Gelissen (2002, p.155), who argue that while Abrahamson (1999, p.412) asserted that when undertaking “comparative studies of welfare states ... (typologies) ... have proven to be a very robust and convincing tool”, they lack a firm theoretical foundation. They do however note that alternative categorisations have been based on a variety of indicators to represent the underlying welfare state ethos and positioning, these include the overall level of welfare expenditure, family welfare orientation, entitlement criteria applied and the accessibility of employment for women. All arrive at broadly similar welfare state groupings (an additional Southern European welfare state type being the major change) to those proposed by Esping-Andersen, suggesting there is substance to the categorisation that he developed.

The UK welfare state centralised and stabilised early

Esping-Andersen’s analysis did, however, suggest that the UK was a developmental outlier. Having calculated his de-commodification index in both 1950 and 1980, the relative position of most welfare states remained stable, but the positioning of the UK has changed over time (Esping-Andersen, 1990, p.53-54). Starting from a relatively social democratic model of welfare provision at the start of the 1950s (when he calculates, it had the most de-commodificatory regime in the world) the UK failed to

develop significantly and had drifted slowly towards a more liberal relative position before the onset of Thatcherism. Esping-Andersen attributes the UK's post war social democratic status to the implementation of the *Beveridge Report on Social Insurance and Allied Services* that was published in 1942. Thane (1996, p.279) concurs with his analysis arguing that throughout the golden age of post war growth, welfare policy in the UK remained relatively consistent with a focus on the provision of core universal benefits-in-kind while retaining subsistence level cash benefits. She argues that the Poor Law tradition of self-help with the state providing a residual safety net as the benefit provider of last resort is a long-standing cultural and institutional positioning of UK society and the welfare state. By way of illustration, many continental countries introduced public past income-related pensions, unemployment, and other benefits from the 1960s onwards, but this was not considered appropriate in the UK, and a public earnings-related pension scheme was not introduced until 1978 (other public past income-related benefits were not introduced in the UK). It was reformed in 1986, replaced with a flat-rate second pension in 2002 and abolished in 2014, before it reached programme maturity³¹.

While welfare regime typographies can give a flavour of the differences in welfare states that have evolved, they fail to take account of the diversity of provision that has emerged between and within individual programmes (Comas-Herrera, Wittenberg and Pickard, 2010, p.387). In the next section, we explore the UK welfare state as a sometimes incoherent "political artefact" (Goodin, 1988, p.3) that is a product of historical evolution and compromise over an extended period. With a focus on programmes that cater to the needs of older people, the analysis traces the evolution of provision from the Poor Laws to the Beveridgean welfare state. Emphasising continuity, this suggests that the UK welfare state is resistant to change and shows significant variation in the scope and methods of welfare provision across different welfare programmes.

The Beveridgean welfare state

Echoing the analysis of Goodin, Thane (1996, p.278) argues that to understand the UK welfare state requires an appreciation of how provision has evolved over an extended period. Welfare state programmes are an agglomeration of enhancements that have been introduced opportunistically as and when support for reform from a coalition of actors has been available. For her, the Beveridgean welfare state draws upon a long-standing cultural and institutional commitment to collective welfare that can be traced back to the old Poor Laws.

³¹ Chapter four includes further discussion of the historical development of UK pension policy.

The Poor Laws

Blaug (1964, p.229) suggests that the old English Poor Laws were a local, de-centred “welfare state in miniature”. They raised wages when they were below the level of subsistence, paid unemployment benefits and supported older people. The focus of the Poor Laws was not, however, universal, focusing only on the destitute. Benefits were stigmatised and only available where it could be demonstrated that other welfare institutions (family, charity and wider society) could not provide. Payments were means tested using funds collected and distributed at the local parish level. Voluntary agencies delivered the poor relief given, and the local nature of provision meant that the level of care was highly variable across the country. With the onset of the industrial revolution, the Poor Law became increasingly expensive and provision was curtailed significantly from 1834 onwards.

While initially keen to repeal the Poor Laws and significantly reduce the stigma associated with welfare, the Liberal government (1905 to 1915) compromised and chose to adopt a more evolutionary approach. The scope of traditional pauperised provision was reduced by moving two key policy taker groups to alternative non-stigmatised centrally-controlled welfare programmes. Fraser (2009, p.185) argues that while the reforms introduced by the Liberals were relatively modest, they were a clear step towards more radical welfare reforms that would emerge in the future. A non-contributory state pension for those aged over seventy and mandatory *national* insurance against sickness and unemployment (with contributions made by workers, employers and the state) for poorer workers were both introduced. Concerns that these measures would crowd out existing provision and the lack of delivery infrastructure led the government to work with organisations that already delivered welfare, such as trades unions and friendly societies to make payments³². The Treasury also insisted that the state pension should be a modest flat rate, non-contributory scheme *for all citizens* to reduce administration costs. Lynch (2006, pp.55-69) argues that this decision reflects an approach to welfare that has had far-reaching consequences on the structural age bias of the UK welfare state.

The Beveridge Report

In 1942, at the request of the wartime coalition government, William Beveridge chaired a report into welfare provision in the UK. This proposed a national insurance scheme that would deliver free (at the point of use) health care, unemployment, sickness and incapacity benefits, state pensions and child allowances. He sought to harmonise existing provision that had developed over time and to integrate

³² The welfare reforms introduced by the Liberal government were built by repurposing existing institutional structures that were already in place and operating successfully. In the two cases of more recent sustainable welfare funding reform explored in chapter four, policymakers employed a similar approach to deliver welfare funding reform.

services into a coherent system of cradle to grave welfare provision that would address the great social ills of “want, ignorance, disease, squalor and idleness”. The recommendations of the report were implemented by the Attlee administration between 1945 and 1951. While Beveridge asserted that his reforms were evolutionary (Marshall, 1970, p.84), the healthcare and benefits delivered were universal. This marked a significant break with pre-war provision that was residual and targeted at the working class. While his report argued that welfare was a social right and that healthcare and education should be free to all, it sought to address want rather than inequality. Beveridge proposed that financial transfers should be set at subsistence level to incentivise work. While Esping-Andersen (1990, p.53) attributed a high relative level of de-commodification to the UK in 1950, this was not the stated aim of the reforms.

The structures and concepts introduced and codified by Beveridge have been remarkably resilient. The UK welfare state still features free education and healthcare for all and modest universal benefits that are publicly funded with eligibility based on social citizenship. As Beveridge intended, where additional services or insurance are required, and personal funding is available, the market often delivers enhanced welfare. This approach can be seen most clearly in pension income layering today where public pensions are augmented by (incentivised, encouraged and publicly regulated) additional private provision³³. Writing later, Beveridge (1948, p.298) argued that while some welfare benefits-in-kind should be subject to universal state provision, others should not. He suggested that residential care (as distinct from National Health Service nursing care) for older people should remain a sector delivered by voluntary action and not be universal in scope or free at the point of use. Again, this is a view that has persisted. Beveridge termed long-term residential care “hotels for the old”, and this distinction was also made in the Sutherland Report (1999) which proposed that while nursing (and personal) care delivered by care homes should be funded by the state, hotel costs should be means tested.

Social and demographic changes

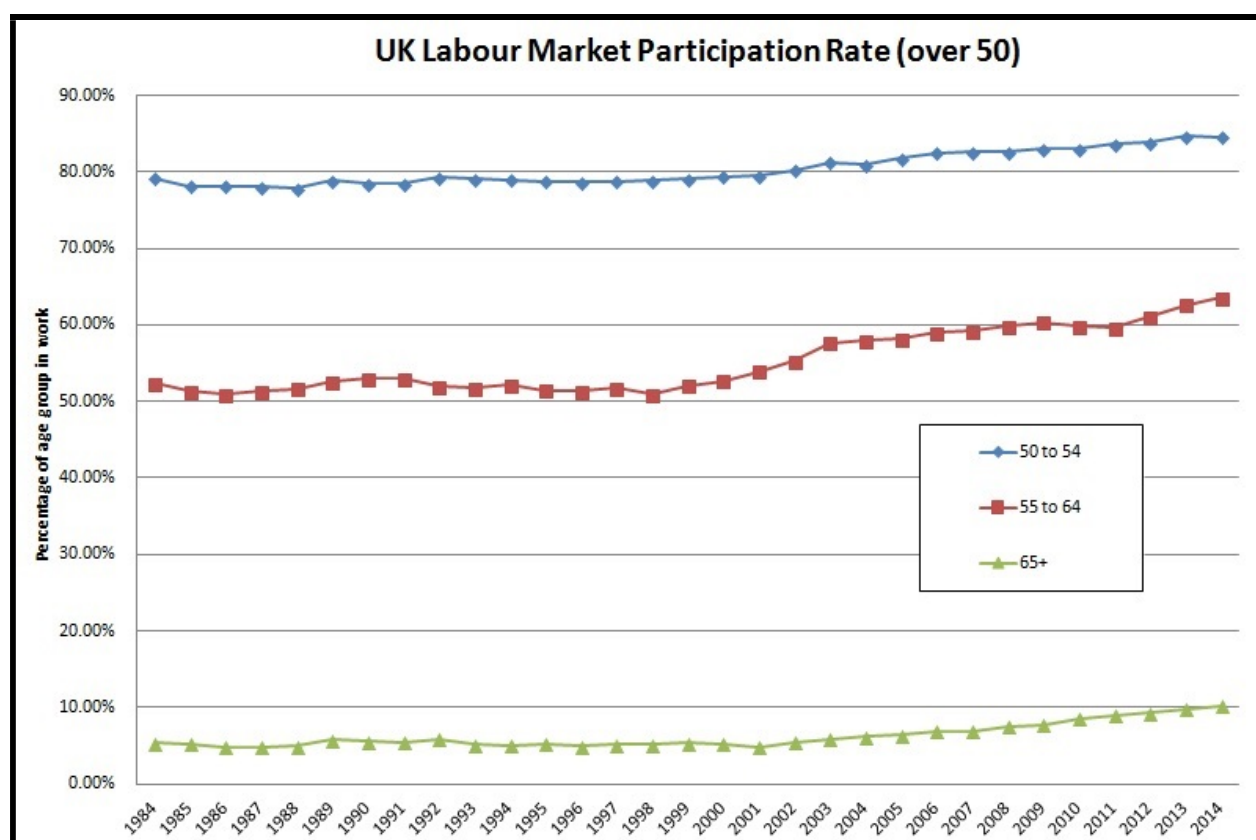
While there has been significant institutional continuity, Thane (1996, p.4) discusses some major trends in the development of the welfare state in the UK. The first is the changing role of women. They have moved from being predominantly benefit recipients and policy takers to being recipients, policymakers and active paid agents in both the public and private welfare sectors. Cribb, Disney, and Sibieta (2014, p.18) note that the proportion of female workers in the public sector has grown consistently since the mid-1970s and reached two-thirds of the workforce in 2013. This trend has been

³³ In contrast to private pensions, the market for social care insurance has not been incentivised by UK policymakers and has failed to develop.

replicated in the private sector, and overall labour participation rates for men and women have begun to converge.

As life expectancy has increased the nature and cost of retirement has also been transformed from a relatively minor area of public spending into a major focus. As the cost of caring for older people continues to rise, policy is now turning towards their partial re-commodification. This development is framed as emancipatory (Altman, 2015, p.3), but raising the age at which the state pension is payable, abolishing the default retirement age, protecting workers from age discrimination and encouraging older people to stay in work or to take phased retirement all raise the overall labour participation rate and reduce the level of means-tested benefits payable by the state to older people.

Figure 2. UK labour market participation rate for those over 50 (1984 to 2014)



Source: Organisation for Economic Co-operation and Development (2018)

Figure 2 above shows UK labour market participation for older people between 1984 and 2014. The labour market participation rate for those over fifty was broadly flat from 1984 until 2000. After that date, it began to rise for all age groups with a particularly high rate of increase for those over 65 (up from 3% to 8% of the age group between 2001 and 2014). The relative stability in the period to 2001 was driven by falling male participation rates and rising participation rates for women as the two trends cancelled each other out. Increasing female labour market participation has been particularly pronounced in the 55 to 64 age group as the

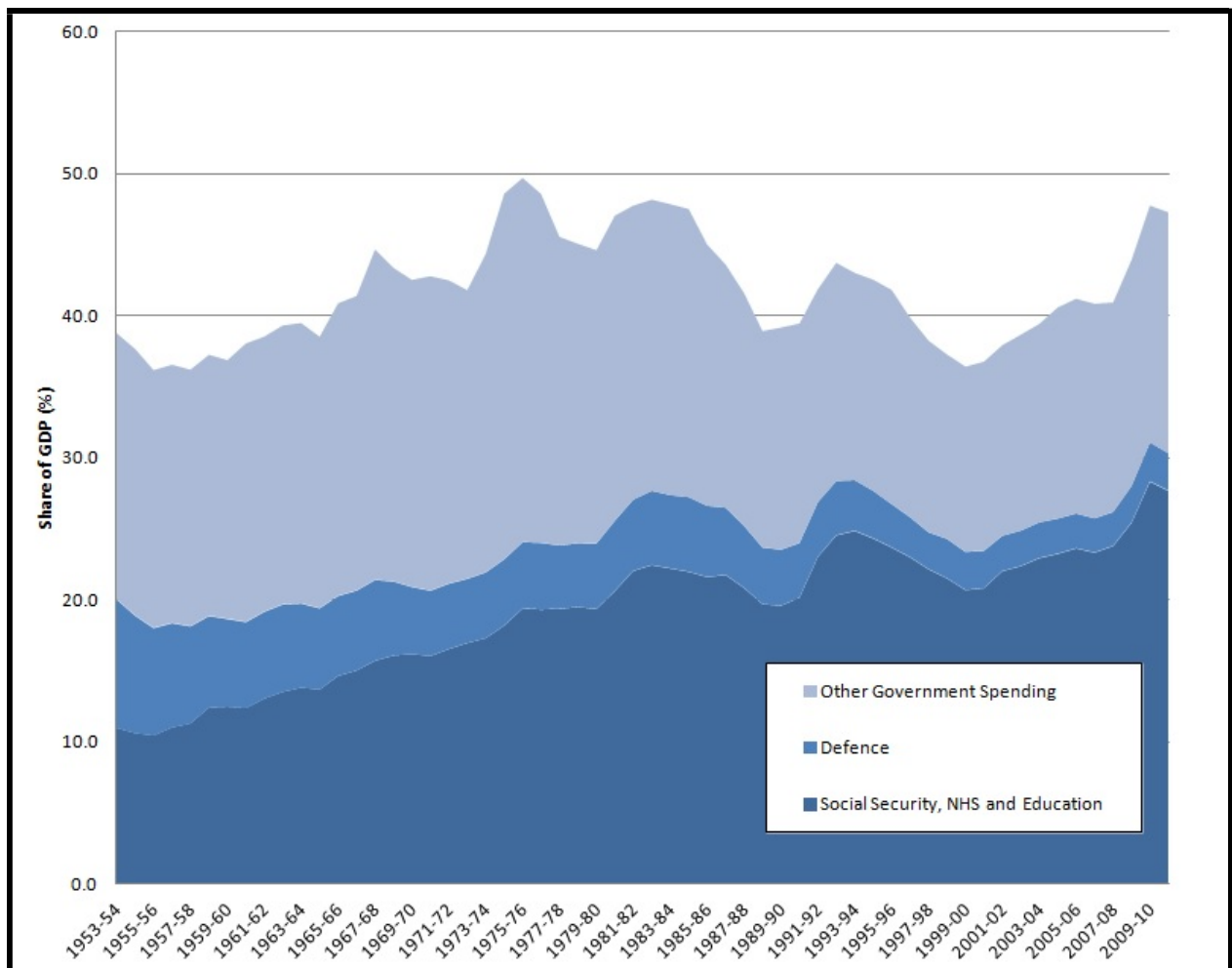
pension age has been equalised between the sexes (up from 36% to 56% of women in the 55 to 64 age group between 1984 and 2014).

Welfare state expansion and centralisation

Another trend highlighted by Thane (1996, p.204) is a gradual transition (with large changes during both wars) from localised non-state provision towards standardised and increasingly centralised welfare provision. The Poor Laws required parishes to collect a poor rate and to provide relief to the destitute. Concern about uneven levels of welfare coverage saw this role passed first to county councils and then in many cases to central government. The welfare provision that remains with local councils is now focused on education and social care. Minimum service levels in these areas are now mandated by central government and the quality of services are audited by national regulators. Local control over primary and secondary education has been diluted with the recent introduction of academy schools, leaving non-academy schools, declining numbers of council houses and social and residential care as the residual welfare areas managed by local government.

Finally, Thane (1996, p.277) notes that in the UK and beyond, state expansion was one of the defining features of the 20th century and that the growth of multiple welfare programmes was one of the major drivers of this expansion. When the Liberal government introduced an old age pension in 1908 it was a non-contributory pay-as-you-go scheme that was targeted at those who had failed to save in the past; the expectation was that the current (in 1908) wealthier generation would save for their retirement and that future pension costs would fall. Similarly, when the National Health Service was created in 1948, the stated expectation was that there would be a high initial cost as the backlog of healthcare problems was cleared but that costs would then start to fall. The reality was, without the price mechanism to constrain demand, costs in both cases continued to rise inexorably.

Figure 3. UK welfare spending as a share of GDP (1954 to 2011)



Sources: Office for National Statistics and HM Treasury

Figure 3 above shows the share of GDP spent by the UK government on welfare, defence, and all other areas of expenditure between 1953-54 and 2010-11. In this period the share of national income spent by the state rose from 39% of GDP to 47%. Welfare spending (defined as programmes that address the great social ills detailed in the Beveridge Report – social security, health care and education) enjoyed a rising proportion of the increased share of national income that is spent by the state. Between 1953-54 and 2010-11 the share of *overall government spending* that was directed to welfare rose from 28% to 59%. In the same period, defence spending fell from 23% of *government spending* to 6% and all other government spending fell from 48% to 36% of *government spending*. Welfare expenditure has become the primary expenditure activity of the UK government. Defence spending is now roughly 2% of UK GDP and the government has committed to continue to meet the NATO pledge to spend at least 2% of UK GDP on defence (Ministry of Defence, 2018; Fallon, 2017). There is little scope to cut defence spending further to fund higher welfare spending in the future.

The hybrid UK public welfare state

State expansion was one of the defining features of the 20th century, and the growth of a positive, taxation-funded core welfare state was one of the major drivers of this expansion. The first half of the twentieth century saw policymakers move the focus of the UK welfare state away from local, non-state provision towards standardised, centralised public welfare. After decades of policy consensus and relative stability, the past forty years have seen the direction of travel start to reverse. The long policy journey from devolved, local welfare towards more centralised provision created a UK public welfare state that is a complex of institutions delivering a broad range of cash benefits along with professionalised, commodified, de-familialising education, health and social care. Powell and Hewitt (2002, p.35) argue that the core welfare state that has emerged in the UK is a combination of Beveridgean universal subsistence level cash benefits and a Marshallian 'reasonable maximum' of provision for the *major* benefits in kind (health and education). This hybrid welfare state structure is broadly aligned with UK public opinion. Free education, healthcare and subsistence pensions are almost universally held to be social rights. The payment of benefits to working-aged adults has a much more ambiguous place in the public perception. While core welfare state benefits-in-kind enjoy strong support from policy takers, more marginal areas of welfare (such as council housing or social care for older people) delivered by local councils, do not always achieve the 'reasonable maximum' level of funding. This marginalisation of locally controlled welfare reflects a long-standing welfare settlement with greater levels of funding for centralised core benefits and less generous settlements for de-centred, 'Poor Law' areas of the public welfare state (Powell and Hewitt, 2002, pp.38-39).

3. The core welfare state – popularity, secure funding and ossification

The visible, core welfare state that has evolved in the UK is a collection of ageing institutions that provide a wide range of services to the young, those of working age and the old. Most of the programmes that make up the core welfare state have passed through sometimes very different life cycles of birth in the first half of the twentieth century, development underpinned by broad popular support, a golden age of post war welfare provision, attempts at retrenchment to dampen rising costs and burgeoning public expectations of programme receipts and on into relatively stable, mature, policy 'equilibrium'. When considered collectively, welfare is the major area of government activity. It is also an area that has long been analysed in depth.

Pierson (1994, p.7) argues that when European welfare states were expanding in the decades of post war growth and reconstruction, the power of organised labour was a major driver of that expansion. The Keynesian bargain of full employment, a growing welfare state and the scope that this benign

environment gave business to achieve profitable expansion underpinned broad public support and political consensus. Capitalism had failed in the Great Depression and the world had descended into economic chaos and war, central planning and a state-led mixed economy that rewarded labour were in the ascendant.

As the welfare state developed after 1945, the attitude of society towards older people evolved. Bode (2008) discusses the collectivisation of provision for older people and argues that the rights of all citizens to pensions and care in old age increasingly became seen as the responsibility of the state. While this trend to institutionalise retirement has been criticised as the “welfarisation of old age” (Bode, 2008, p.101), increasing the cradle to grave scope of the welfare state was very popular. Baldwin (1990, p.3) argues that this support was built on intergenerational social solidarity and a broad expectation of programme receipts. Welfare benefits also tend to be targeted on groups clearly in favour of enhanced provision while funding costs are often diffuse and unclear.

Retrenchment (mostly) repulsed

Taylor-Gooby (2002, p.597) argues that the Keynesian welfare state that flourished in the golden age of welfare relied upon stable and moderate levels of demand for welfare services. When unemployment began to climb in the 1970s and governments jettisoned the commitment to full employment, the cost of welfare started to become unsustainable. The enhanced healthcare services that raised labour productivity and improved the quality of life for citizens also extended life expectancy and contributed to an ageing population. The demand for pensions and care services for older people began to grow. Similarly, Richards and Smith (2002, p.59) suggest that the limits of government expansion began to be reached in the 1970s. The broad post war policy consensus in favour of a state-managed economy, led parties of all hues to attempt to outbid each other to secure votes. The long-standing commitment to full employment also caused the balance of power between organised labour and capital to be skewed towards labour as Kalecki (1943, p.324) had predicted. Business profitability began to fall, and the policy consensus unravelled. With the de-legitimisation of the Keynesian welfare state a new orthodoxy was needed that repudiated the big government approach.

With the election of a UK Conservative government in 1979 that promised to roll back the state, many commentators expected that societal relations would be reorganised, capital would achieve significant gains at the expense of labour and that the welfare state would be reduced in scope. Over time much of society was indeed transformed, the power of organised labour declined significantly, nationalised industries were privatised, the commitment to full employment was dropped and the

share of national income going to labour fell significantly. But, the size of the welfare state continued to grow. Pierson (1994, p.179) argues that the expected welfare state retrenchment failed to materialise, despite a political environment that most observers expected to deliver programme reduction, because such reductions are highly controversial and very hard to deliver in areas where there is social solidarity and a broad expectation of programme receipts. He suggested various factors that underpin this welfare state resilience. Firstly, risk and loss aversion are widespread. This leads to a welfare spending 'ratchet effect' that makes it far harder to reduce spending on existing programmes than it is to increase spending and deliver improved services. He also notes the asymmetry of impact on those that benefit and those who lose directly from welfare state retrenchment. Secondly, existing welfare state institutions create advocacy groups that strongly support existing welfare provision that is targeted on current welfare state insiders (Simmons, 2002, p.65). The benefits of lower taxation that retrenchment might deliver are vague and even when realised are unlikely to be linked by taxpayers to past welfare reductions. Losses are, however, often immediate and impact policy-takers such as pensioners and health care professionals that may be deemed to be worthy of care or that are more trusted than the policymakers that propose welfare reductions. Finally, Pierson (1994, p.44) suggests that path dependency limits the policy options available to policymakers. Past governments have made policy choices and promises to current and potential programme beneficiaries that have an impact long into the future. Path dependency theory argues that where the political or financial cost of reversing current policy is high, policy reversal for existing beneficiaries is unlikely (Pierson; 1994, p.43, 2000, p.10). Where past policymakers have made binding future promises these inflexible outcomes form part of the environment that constrains current policymakers and the presence or absence of such path-dependent programme features may result in very different long-run policy outcomes.

Public pension programmes are an example where such promises have been made. Changing pension policies to deny pensions that have been earned over a lifetime is likely to be very unpopular (and legally problematic), so once made, pension promises are usually honoured and have an impact for decades. Those retiring today in the UK may have built up public, personal and occupational pensions between the 1970s and 2020, so any recent retrenchment will have a limited impact on current pensioner outcomes. This protection does not, however, extend to all welfare areas. While it can take decades for changes in pension policy to have a significant impact on the incomes of older people, changes to social care policies have a much more rapid impact on policy outcomes. Where retrenchment measures are introduced these are likely to have an immediate impact on investment and to constrain on-going service levels.

It has also been argued that the role of business in the development of the welfare state need not be adversarial. Swenson (2002, p.122) suggests that large companies, with strong political connections, tend to pay more generous remuneration packages than smaller companies. They may also enjoy significant scale economies. For companies such as these, welfare reforms that require industry-wide collective bargaining and extend employee benefits to the staff of lower cost domestic competitors will make them more competitive. In countries where large established companies are dominant, a corporatist model may emerge where the interests of insider labour and existing entrenched capital are broadly aligned. Attempts at welfare retrenchment in corporatist welfare states are, therefore, faced with deeply entrenched interests.

For all these reasons, and despite their neoliberal rhetoric, Pierson (1994, p.131) demonstrates that attempts by parties of the right to significantly reduce core public welfare provision in the face of broad public opposition to welfare cuts failed. While asserting that overall welfare retrenchment is hard to achieve, Pierson does argue that there have been cases of individual programme retrenchment in the UK. He documents some of these cases, suggesting that the policies employed are very different and deliberately less 'democratic' than those associated with welfare state growth. Welfare retrenchment is not popular, so policy strategies seek to disguise the impact of policy changes and, where possible, deflect blame. One strategy is to enact changes that will have little immediate effect but a significant long-run impact. Changing pension indexation from an earnings basis to inflation basis (which tends to be lower) is such a policy change. Several countries, including the UK³⁴, enacted this change with little initial impact. The policy did however significantly reduce the long-run cost of public pensions.

A similar strategy is to enact retrenchment but to exempt existing claimants. The recent move in the UK to a less generous single-tier public pension scheme saw those that had accumulated unfunded second-tier earnings-related pension rights (SERPS) compensated in full in cash for the loss of those rights. The retrenchment became less contentious as future beneficiaries had yet to accumulate any of the rights that were removed. Such a strategy also required the second-tier pension scheme to be relatively immature as was the case with the UK SERPS scheme. If the earnings-related portion of the state pension had matured (as is the case in many other European countries) the cost of buying out accumulated pension rights would have been prohibitively high. Gingrich (2011, pp.181-187) also

³⁴ The indexation of the UK state pension to the higher of inflation and average earnings was abolished in 1980 and pensions were indexed to inflation alone. The link to earnings was restored in 2011 with the introduction of the triple lock pension guarantee and legislation now requires the basic pension to rise by the higher of earnings, inflation and 2.5% each year.

documents a case of blame deflection in UK residential care for older people. Following rapid growth in provision in the 1980s and a broad policy review in the early 1990s, the responsibility (and accountability) for care funding was transferred from central to local government with financial incentives in place that drove local government to implement gradual reductions in public care funding. Costs were contained and the blame for retrenchment was devolved by policymakers to another tier of government.

Pierson (1994, pp.19-22) argues that these attempts at obfuscation deliberately reduce the accountability of decision making and use strategies that make the decisions made more complicated and less easy for citizens to understand. For him, this is not an appropriate way for democratic institutions to operate. The argument that the politics of retrenchment is inherently less democratic than that of welfare state expansion does, however, not address the issue of inter-generational equity. A government that introduces popular welfare state policies that (taking pay-as-you-go pensions as an example) rely upon programme lock-in and path dependency to compel large scale intergenerational transfers long into the future might similarly be viewed as 'undemocratic'. On a more functional level, obfuscation strategies that distribute blame also increase the number of veto points. While this may make an initial reduction in welfare spending less politically damaging, it is likely to make future attempts at reform more complicated and increases welfare state inertia. Twenty-five years after the responsibility for all public residential and domiciliary care funding was consolidated under local government control, the analysis of current policymaker procrastination in chapter six documents a fragmented care system with around 20,000 provider organisations, 152 unitary and county councils driving local care policy and commissioning (Sandford, 2018, p.4) and a remote Department of Health and Social Care (Interviewee 026, 2018) with few policy levers available.

Retrenchment reinterpreted and welfare state drift

Levy (2010, section 4) outlines additions to the retrenchment literature that build on the ideas of Pierson, grouping them into areas of disagreement and clarification. Those that disagree with Pierson's analysis, argue that retrenchment has been quite large. While government spending on welfare has continued to rise as a share of total GDP it may not be growing sufficiently on a per capita basis to meet growing social spending needs. Hacker (2002, p.6), writing from a US perspective, persuasively argues that while overall public welfare spending may still be stable or growing, private and occupational welfare, which lack the broad universal nature of many public welfare programmes, have experienced higher levels of retrenchment. A further critique suggests that while overall retrenchment may have been modest, a dynamic that combines ever-growing demand for welfare

with constraints on welfare spending has created winners (large, popular, universal insider welfare programmes like pensions and healthcare) and losers (smaller, niche programmes without a broad current / prospective clientele that lack broad popular support such as social care for older people). Clayton and Pontusson (1998, p.95) argue that the popular support that underpins existing provision is focused on cash benefits leading to an “anti-service bias of welfare retrenchment”.

Pierson (2011, p.22) returned to his analysis of retrenchment to consider welfare state drift. While noting that overall welfare spending continues to rise, and the level of core programme generosity and universality has remained relatively stable (Béland, Blomqvist, Andersen, Palme and Waddan, 2014, p.752), he argues that this policy stability allied with significant levels of societal change is consistent with a transformation of the impact of the welfare state. Pierson suggests that existing, popular welfare programmes crowd out emerging welfare needs as existing welfare policy takers dominate provision and limit the opportunities for newly emerging, and potentially more worthy claimants. In this analysis the resilience of existing welfare programmes is not just a seemingly insurmountable problem for those that would reduce the size of the public welfare state, it is also a problem for those that would make it more flexible and relevant to modern welfare needs.

Older people and the ossified welfare state

This analysis of core welfare state maturity and inertia has focused on the unintended impacts of failed retrenchment. A lack of welfare state flexibility does, however, pre-date the period of welfare state funding constraint that began in the 1980s. Constrained funding may have highlighted welfare state inertia, but public welfare has long lacked the mechanisms of “creative destruction” (Schumpeter, 1942, p.81) that might redirect existing welfare programme spending towards new areas of emergent need. In the golden age of welfare, growing levels of funding and benign demography allowed additional provision to be layered on top of existing provision giving an impression of welfare state dynamism.

To explore longstanding public welfare state inertia we can consider the case of welfare provision for older people. Lynch (2006, p.15) notes that there is a wide variation in the proportion of welfare spending that different welfare states allocate to older people. At the most prosaic level, the variation in total welfare spending is driven by the proportion of the population over retirement age (Adema, Fron and Ladaique, 2014, p.3). While total spending on older people varies with the size of the retired population, it also varies significantly on a per capita basis. Lynch (2006, p.19) investigates why welfare spending on older people varies significantly per head (when compared to spending on younger people) between countries. Her cross-national comparison shows that where welfare states account

for a larger share of GDP they tend to have less of a per capita bias towards older people, suggesting that when welfare funding is limited, resources are more likely to be applied to the needs of the old. In the UK, the notion that older people are seen as most deserving of publicly funded benefits is supported by research into UK social attitudes. The 32nd *British Social Attitudes* study (Ormston and Curtice, 2015, p.74) reports that while support for taxation-funded welfare spending is in long-term decline (down from 63% of respondents in 2002 to 37% in 2014) and despite concern amongst policymakers and commentators about the intergenerational fairness of rising relative pensioner incomes (Corlett, 2017, pp. 3-6), when asked which benefits should be a priority retirement pensions remain consistently the top choice³⁵. Having considered and discounted contemporary explanations (grey power, levels of family orientation, the cohesiveness of extended families and power resource approaches) to explain relative per capita spending differences, Lynch (2006, p.55) focuses on a historical path-dependent institutional explanation for the way in which intergenerational allocation conflicts are resolved. When early welfare states first introduced pension schemes these were either universal (based on citizenship) or segmented by occupational status. She finds that this original structure still broadly determines resource allocation between the young and old today. The research shows that the UK, Australia, New Zealand, Ireland and the social democratic Nordic states (which all introduced citizen-based schemes) have the most youth orientated public welfare systems. The rest of Europe, Japan and the USA (where occupational schemes were introduced) have spending patterns that favour older citizens.

The (lack of) evolution of the UK state retirement age reinforces the view that core features of public welfare provision are often historically determined and, once introduced, subject to a policy taker driven ratchet effect. The UK male pension age has long been resistant to change, after falling from 70 to 65 in 1925 it remained at the same age for almost one hundred years and is scheduled to rise to 66 in 2020³⁶. During this period expected male life expectancy at birth rose from below 60 to over 80. When Esping-Andersen (1990, pp.88-92) considered the early history of pensions, he noted that in the 19th century few working men lived to be 65. Pension provision was relatively marginal and early schemes were not designed to replace employment, as older people continued to work after they reached 65, but to compensate for the reduced productivity of the old. Employers would provide sheltered work for older people and family would provide supplementary income and wealthier workers joined private friendly societies. The world of work and retirement today are radically

³⁵ While pensions (and benefits for disabled people) are popular welfare programmes with the British public, unemployment benefit and benefits for single parents are not seen as spending priorities (Ormston and Curtice, 2015, p.81).

³⁶ The state pension age for men and women will rise from 65 to 66 between December 2018 and October 2020.

different. Despite huge changes to the nature of retirement, the retirement age has remained a long-standing constant.

Sustainable taxation-funded welfare for the past

Public welfare state retrenchment in the UK since 1980 has been more modest than many commentators expected. Welfare state funding constraints exist, but major taxation-funded benefit programmes, particularly those that are universal in nature, continue to enjoy broad popular support from current and potential programme beneficiaries, and policymakers are often unable to significantly reduce their scope. This welfare ratchet effect means that *existing* core public benefit outcomes tend to be secure, although protections are lower for niche programmes that lack broad popular support or a significant clientele. We also no longer live in 1980. The labour market, family relationships and the number of old and very old people have changed significantly in the past four decades. Popular support for existing welfare state institutions and benefits can block attempts to reduce current provision but also, when changes are needed, welfare inertia inhibits policy flexibility. While neoliberal policymakers have mostly failed to reverse golden age welfare policy outcomes, they have often been able to block the evolution of new general taxation funded welfare state programmes that might increase the relevance, scope, scale and cost of public welfare.

This dynamic leaves us with the prospect of an ossified welfare state ‘equilibrium’ where public welfare institutions and policies match the needs of the past but fail to evolve to address the needs of today. While popular support for existing programmes makes welfare retrenchment hard for governments to achieve, the strength of support does not always extend to how programmes are delivered. This suggests that there is scope for supply-side reforms that change how welfare outcomes are provided and funded. Overall societal welfare effort is also about more than just public provision. In the next section we consider the growing role of markets in the public welfare state and how policymakers have ameliorated the financial constraints they face by first repurposing and then steering pre-existing, non-public provision and funding institutions to deliver the welfare flexibility that the positive provider state is unwilling or unable to achieve directly.

4. The hidden de-centred rescue of the core welfare state

In the previous section of the chapter we considered the welfare state retrenchment literature and argued that over time, while spending on visible public welfare has continued to rise, the existing taxation-funded welfare state lacks mechanisms to pivot spending towards areas of growing need that sit outside the delineated core. To address policy drift and remain relevant, the welfare state needs

alternative policy instruments that allow the national welfare effort to adapt to changing circumstances. Here we consider strategies that policymakers have employed to address this lack of adaptability and to manage on-going welfare state cost pressures (Baumol, 2012, p.4). These hidden, non-public / non-taxation welfare approaches seek to repurpose, manage and regulate the welfare decision making of individuals, communities and private organisations and make use of structured partnerships between the public and private sectors.

After decades of UK public welfare state growth and increasing centralisation, Gilbert (2002, p.4) argues that the welfare state is starting to move away from universal welfare provision towards becoming an “enabling state” where subsidies, regulation and the re-engineering of welfare incentive structures are used by policymakers to ‘encourage’ citizens into purchasing welfare products. In the pages that follow, we discuss the role played by the non-public welfare state, moves towards a welfare state that makes greater use of regulation and publicly managed private provision and ways in which policymakers have employed structured internal markets in an attempt to make public welfare more relevant and cost-effective.

Non-public welfare

The ways in which private welfare provision and social rights that are met publicly are interwoven is a defining feature of national welfare regimes. When Esping-Andersen (1990, p.87) analysed public and occupational pension systems in eighteen developed countries, he found that all but one (the UK was again a hybrid outlier) conform to one of three public-private pension mix models: a conservative state dominated group focused around devolved public provision, residual state pensions in liberal regime countries where devolved private pensions prevail and universal, centralised state dominated provision in social democratic regimes. In this analysis, UK pension provision combines a Beveridgean universal flat-rate state pension with a significant level of devolved private provision. With the UK situated between Esping-Andersen’s liberal and social democratic regimes, a pluralist public / private pension funding mix is a long-standing institutional feature in the UK with strong growth in private occupational pension plans occurring between the First and Second World Wars.

While the public welfare state grew hugely in size and scope in the twentieth century, in all welfare regimes it remains one element in the mix of societal welfare delivery. Despite the continued importance of non-public welfare, Hacker (2002, p.7) asserts that much of the literature relating to welfare spending is focused on *public* welfare. He notes that the private welfare state is a large and growing part of the total welfare effort, and argues that where we ignore private provision we miss a key area of welfare activity. Similarly, Rose and Shiratori (1986, p.13) discuss welfare pluralism,

arguing that despite the growth of public welfare provision, the state is not a monopoly provider and the individual and family remain a major focal point of welfare decision making. Welfare delivery is provided and funded by a combination of actors. These include the individual, family, third sector groups, private and occupational sources as well as the state. The mix of public and private welfare provision employed also varies considerably across countries and between programmes. While US healthcare is delivered and mostly funded privately, in the UK it is universal in scope, predominantly delivered by the state and funded by general taxation. English social care is however very different, mostly being delivered and often funded privately. The public / private mix variation has a major impact on how programmes are designed, their redistributive effect and the degree of universality of welfare coverage that is achieved within individual programmes. While much of the discussion in the literature is focused on welfare at the national or institutional level, Rose and Shiratori (1986, p.16) discuss welfare provision from the individual perspective. They argue that the variation in mix experienced by individuals is also driven by cultural factors, the availability of welfare programmes that they might utilise, household (and state) finances and the age of the individual involved. Drawing on the experience of Japan, where formal welfare expenditure is relatively low, they also suggest that the level of overall public spending is not always a good guide to the quality of welfare *outcomes* that are achieved.

Adema et al. (2014, p.7) agree with Hacker (2002, p.12) that focusing on *public* welfare spending as a share of GDP is a misleading measure of the national welfare effort as this ignores private welfare provision and the impact of fiscal welfare. While private social spending amounted to 3.2% of GDP across all OECD countries in 2009, such provision is not evenly distributed with the US relying much more heavily on private social spending, particularly in healthcare. A second key area they highlight is taxation policy, noting that the level of direct and indirect taxation paid by benefit recipients varies significantly between welfare state regimes. More liberal countries such as the US and UK collect relatively low levels of such taxes from benefit recipients while social democratic regime states such as Sweden and Denmark collect significantly higher levels. Once account has been taken of private welfare spending and the cost of fiscal welfare, we see a convergence of welfare spending levels. Adema et al. (2014, pp.14-15) rank thirty OECD countries by gross public social expenditure and by total net social expenditure (which includes private social spending and the net impact of fiscal welfare). These calculations suggest that while the US has relatively low *public* social spending as a percentage of GDP (23rd out of 30 nations), in overall societal welfare spend it is second only to France.

Regulatory welfare

Having noted the continued importance of non-public welfare spending, we turn to an analysis of ways in which policymakers have sought to re-purpose, manage and regulate the non-public welfare choices made by individuals, families and private organisations to achieve desired outcomes. When investigating welfare state policymaking, the focus is often on visible public areas of welfare provision such as cash transfer payments and the direct provision of welfare services. Both these traditional welfare channels redistribute wealth *after* it has been generated and, in the UK, are funded via current tax revenues. Here we consider a second group of policy instruments that are less clearly identified as welfare state mechanisms. These include regulation and pre-distribution policies that target specific welfare issues, directly impact the workings of the private economy and alter the resource share that it generates (such as legislating for a minimum wage, requiring employers to offer and fund auto-enrolment pensions, equalising the retirement age for men and women and actively promoting age diversity) and fiscal welfare that incentivises private individuals to make their own welfare provision rather than relying on the state (such as tax incentives that encourage individuals to save for their retirement).

Mabbett (2013b, pp.216-218) argues that a significant portion of the overall welfare effort is achieved via such non-public approaches. Labour market regulation is an area where the state uses legal mechanisms to achieve welfare objectives by managing the scope of private sector action. Such a regulatory approach is not a new phenomenon. Regulations prohibiting child labour and requiring children to attend school have long sought to address the inability of markets to develop human capital. A regulatory approach can also be used to 'privatise' existing welfare expenditures incurred by the state. The Conservative government recently reduced working tax credits while raising the minimum wage, a move that effectively transferred a portion of the cost of existing benefit payments from the public to the private sphere (Giles, 2015). The regulatory welfare mechanisms employed by policymakers are often linked to employment, which provides a ready, sustainable funding source, and involve the state incentivising the decision making of individuals and re-engineering existing market relationships to achieve welfare state goals *during* the wealth generation process. Once markets structures have been reformed, they can then be steered by regulators³⁷.

³⁷ Mabbett (2013b, p.216) notes that the privatisation of UK public utilities required the creation of agencies staffed by technocrats to ensure privatised companies did not abuse their market dominance. When welfare states began to contract out services this pre-existing market managing bureaucracy was used to facilitate the introduction of regulated markets within the welfare state. In England, this remains a contested move away from the state funding and delivering welfare, but in countries such as Germany health and social care have long been provided by (usually non-profit) third-party organisations.

In the late 1990s, Majone (1997) developed an influential regulatory state conceptualisation to interpret governance changes in European nation states. He argued that decades of increasing competition and economic integration had significantly reduced the scope for national policymakers to use fiscal, monetary and exchange rate policy to steer and fund policy outcomes (Majone, 1997, p.140). Majone made a clear distinction between the traditional tax-and-spend, positive state where the focus of policymaking was economic stability and wealth redistribution, and the emerging European regulatory state where the governance role of individual states was much diminished, and the policy focus was limited to correcting market failure (Majone, 1997, p.143). Moran (2003, pp.2-5) and Levi-Faur (2011, pp. 27-29) agree that Majone's regulatory state analysis has significant explanatory power but argue that the concept can be employed more widely to analyse policy responses to constraints on policymaker agency in an era of globalisation, increased demand for public services and a neoliberal impulse to contain the size of the state. They suggest that the regulatory state need not be a neoliberal construct, a position consistent with the pre-distribution agenda that argues for regulation to directly address the causes of inequality rather than using the welfare state to treat symptoms (Chwalisz and Diamond, 2015, p.1). Moran also argues that far from diminishing the role of government, the rise of a UK regulatory state has broadened democratic accountability, modernised / replaced private self-regulation and increased the domain of state control.

Managed welfare markets

Having explored how policymakers have embraced regulation to guide private welfare institutions and individual behaviours and outcomes, we complete the chapter by considering approaches that policymakers have employed to structure non-public welfare markets to deliver their objectives. The regulatory state described by Majone, Moran and Levi-Faur promotes public regulation of individual action and private provision. Policymakers in the UK have gone beyond regulation, developing alternative funding approaches that are bespoke, institutionally specific and built by repurposing existing market relationships and institutional structures. Once in place these re-engineered markets, funding sources and regulatory institutions give policymakers and their regulators significant levers that they can use to guide future welfare outcomes.

Gingrich (2011, pp.3-7) argues that these managed welfare markets can be designed by policymakers in strategic ways to achieve very different goals (depending on the objectives of policymakers) by manipulating the degree of market power held by service users, service providers and the state itself. She suggests that engineered markets can reduce the power of existing public service providers, make welfare delivery more efficient, raise service quality, increase consumer choice, control costs and

deliver more appropriate services (although not all objectives can be achieved at once). Markets also offer scope to transfer both funding and provision from the public to the private sphere. Perhaps the clearest example of the rise of managed non-public welfare markets in the UK is pension policy. In the past thirty years there has been a significant shift towards private pension saving in the UK (Mabbett, 2013a). A radical change in the public / private welfare mix was a major policy goal of the Thatcher administration (Jacobs, 2008) and the results of policy changes made in the 1980s can be seen today in a rising proportion of pensioner income that comes from private sources. Despite the Conservative goal of reducing state control, attempts by successive governments to promote secure pension layering amongst citizens have led to increasing levels of public regulation of private pension markets. There are a variety of ways in which the state can move from predominantly state originated, funded and delivered welfare provision towards more mixed provision, but all tend to require an extension of state regulatory and legal powers. Possible approaches include the outsourcing of existing publicly delivered welfare services with external provision monitored and regulated by the state, the regulation (or extension of the regulation) of existing private providers and the contracting out or franchising of welfare provision. Mabbett suggests that the UK Kitemark pension scheme (now the Pension Quality Mark that guarantees high 'quality' pensions with relatively low charges) was an example of the UK government acting as a *franchisor* to the private welfare state. The state was deeply involved in the creation of a private sector pension product and the product itself was backed by government guarantees. Hacker (2002, p.10) similarly argues that while corporate benefits and direct individual welfare spending are deemed to be private, in an analysis that echoes Polanyi's (1944, p.71) view that the creation of a market society requires concerted government action and regulation, governments are usually deeply involved in private welfare provision and private welfare markets are often created and managed by government policies.

Mabbett (2012, p.125) also notes that behavioural economics offers "a new set of public policy options in liberal market economies". While auto-enrolment in the USA, saw policymakers nudging citizens towards greater pension saving, she suggests that UK auto-enrolment pensions are publicly driven and are "more of a shove". While UK employers are legally obliged to enrol their employees in a workplace pension scheme and must make matching employer contributions, employees can opt out. The default choice is however scheme membership and employees must make an active choice not to save for their retirement every three years. The scheme is popular and the opt-out provisions, while exercised by fewer than 10% of eligible employees (Espadinha, 2018), allow the scheme to be framed as an 'encouraged', individual choice (NEST, 2015, pp.16-26). As a large proportion of future pensioners in the UK are likely to receive means-tested benefits on top of the basic state pension, this approach

sees policymakers engineering a move away from taxation funded benefits towards publicly managed private pension markets.

Achieving welfare state goals *during* the wealth generation process

Policymakers have long used fiscal welfare and public regulation of individual behaviour and private markets to bridge gaps between core welfare state provision and the welfare needs of citizens³⁸. The use of these non-public welfare policy instruments has however increased significantly in recent decades. When Mann (2006, p.77) explores the development of welfare marketisation, he argues that UK pensioners are being 'encouraged' to move from being "passive welfare dependents" to consumer-citizens that actively manage their own retirement. In policy areas such as pensions and the statutory minimum wage, the UK government has employed a regulatory approach to transfer part of the cost of current and future income support from the state to individuals and the private sector. The introduction of markets into existing state provision has also been used to reduce the per capita cost of welfare by outsourcing and to 'share' the welfare burden with individuals and the private sector.

There are, however, UK welfare programmes which fall outside the core welfare state and where this combination of marketisation, regulation and fiscal welfare have either not been attempted by policymakers or have proved to be ineffective. While policy areas like pension saving lend themselves to layered private provision on top of a public basic state pension, other parts of the welfare state, such as social care do not. In such areas, where the public welfare state fails to deliver sustainable programme funding and non-public welfare policy options are not seen as a viable option by policymakers, funding and policy outcomes are likely to be less favourable.

5. All welfare programmes are not created equal

The hybrid liberal for most cash benefits / social-democratic for most services, apart from residual 'Poor Law' elements like social care, (Powell and Hewitt, 2002, p.182; Esping-Anderson, 1990) UK welfare state is a mosaic of sometimes contradictory institutions that have evolved over more than a century to meet the welfare and human capital development needs of society. All societies need mechanisms to allocate resources to those in need, and this allocation is not something that non-guided markets can readily achieve. While the welfare state was shaped by pre-existing society, culture and institutions, society has been comprehensively transformed by services delivered by the

³⁸ A former Department of Health Civil Servant (Interviewee 026, 2018) argues the divide between local and central government is wide and that central government also uses a regulatory state approach to 'guide' council activity.

welfare state. Historically, the core public welfare state was also a centralising, standardising force in the UK, with most welfare provision moving from parish to council to central government. While this process improved welfare coverage, it required growing levels of taxation-funded public expenditure, reduced local flexibility and marginalised those welfare areas that remained within local government control³⁹.

In the golden post-war age of welfare, UK policymakers made often unfunded welfare state promises that have, despite the expectations of many commentators, broadly been kept. The visible, popular, taxation-funded UK core welfare state is resilient, and despite attempted retrenchment the ideas and institutional structures codified and espoused by Beveridge (1942) remain strong, and the contours of the core public welfare state are aligned with his thinking. The resonance of past policy decisions does, however, limit current policy options, and inertia, policy drift and the strength of welfare state insiders limit institutional flexibility. Once institutions are created and embedded in the fabric of the welfare state, they are hard to reform.

As the welfare state has matured and policymakers have adopted neoliberal policy strategies, growing financial constraints on publicly funded welfare and broad popular support for existing provision have limited the opportunities for deserving welfare state outsider programmes to achieve increased levels of public welfare provision as entrenched programmes from the past crowd out newly emerging welfare needs. New post golden age taxation-funded welfare programmes have been vanishingly rare, so policymakers have increasingly turned to de-centred, non-public policies that employ regulation, fiscal welfare, and the ideas of behavioural economics to fill the gaps that open between core welfare programmes and the emerging welfare needs of citizens. Welfare goals have never been achieved by governments alone, and policymakers increasingly look to improve welfare outcomes by guiding the choices made by individuals and non-state providers.

The direction of travel for the welfare state may have changed, but a complex of legacy welfare programmes with very different objectives, founding missions and funding approaches remain embedded in the fabric of the welfare state. Once created, programme change tends to be rare and slow, so once reforms have been secured, they tend to persist. The public welfare state has settled on

³⁹ UK social care for older people is a marginal welfare institution that never made the move to the centrally funded welfare state core.

a relatively stable, little punctuated⁴⁰, collection of welfare institutions⁴¹ leaving non-public welfare to fill emergent gaps, a dynamic that has left the UK with some quite distinct welfare state funding approaches. Some institutions never really escaped the marginal, de-centred, local council funded Poor Law tradition (social care), more reside in the more generously funded, legacy positive welfare state (the basic state pension and the National Health Service) and others have been created in the post golden age of regulatory welfare where the state prefers to steer third party activity rather than row (minimum wage, student loans and private auto-enrolment pensions)⁴².

The legacy core public welfare state and more recent devolved, non-core welfare approaches discussed in this chapter are both underpinned by sustainable funding approaches. Programmes that fall within these two welfare funding poles have fared relatively well during the period of austerity that followed the Great Recession. Social care in the UK is funded by local government which lacks structural funding supports and has been badly impacted by austerity leading to calls for a more sustainable financing approach. With a move towards the welfare state core politically and technically problematic, policymakers have discussed new sustainable, de-centred regulatory funding approaches but no reforms have been introduced. Elsewhere such approaches have been enacted in marginal policy areas where new funding institutions were politically feasible and where alternative institutional structures already existed. To better understand how sustainable funding reform was achieved, in the next chapter we analyse two cases (one predominantly public and the other mostly private) where devolved, non-taxation funding reforms were successfully introduced by policymakers. In both cases there were significant antecedent conditions that made reform more likely.

⁴⁰ While institutions within the welfare state core have tended to suffer lower retrenchment than those outside, there have been cases of core benefit retrenchment. Examples include the 1980s transition from *universal* NHS geriatric beds to *means-tested* private care provision (discussed in chapter five) and reductions in the value / scope of some (non-pension) cash benefits. These cases suggest that the retrenchability of core welfare programmes does vary with institutional (and other) factors and programme salience (Ormston and Curtice, 2015, p.81). There have also been periods where non-core institutions have enjoyed sustained funding growth (the Labour government increased English local government commissioned social care spending by 5% a year throughout the 2000s (Simpson, 2017, p.4)).

⁴¹ Baumgartner and Jones (1993, p.22) predict long-run policy stability, but argue that “much of the political world is never at equilibrium” with the multiple, different ‘points of stability’ seen in the UK welfare state “created and (potentially) destroyed during (infrequent) critical junctures” as new issues develop.

⁴² Over more than a century, the direction of travel for the UK welfare state transitioned from conservative, local, devolved welfare in the 19th century towards centralised, state provided social democratic welfare in the golden age and has increasingly turned towards liberal devolved (with central regulation) welfare today. The German conservative welfare state has retained a conservative devolved (with central regulation) approach throughout.

Chapter 4. De-centred welfare with sustainable funding

The first analytical chapter of the thesis argued that the UK welfare state has added vanishingly few new taxation-funded welfare programmes in recent decades and is focused on existing policy takers. Where new welfare needs emerge, policymakers have increasingly employed neoliberal policy strategies and turned to non-core, de-centred welfare approaches to fill welfare gaps. Demand for significant levels of formal, non-family social care emerged relatively recently in England, and this increased need has not been adequately addressed by the core welfare state. While the privatisation ideology of the 1980s facilitated the marketisation of social care delivery and the development of a policy community around care providers and commissioning organisations, alternative devolved public or private funding institutions were not introduced or encouraged, and social care lacks sustainable funding. To better understand why alternative care funding approaches have not been introduced, chapter four starts by analysing two welfare programmes for older people where sustainable funding has been successfully enacted. The chapter also charts how sustainable funding can develop over time and isolates explanatory variables consistent with funding reform, arguing that change was possible in the comparator cases because ready-made, popular, preferred funding institutions were available and guided the politics of organisational change when a critical juncture opened and the relevant policymakers were looking for an alternative, devolved and sustainable funding approach.

1. Solutions looking for problems

As the debate around the long-promised social care green paper has developed there have been numerous calls for a sustainable funding approach. There is, however, a lack of agreement about what this means and how sustainable funding might best be achieved. In chapter four, we explore two successful, but very different welfare reform cases where policymakers engineered new, sustainable funding institutions designed to support the long-run welfare needs of older people. The introduction of German long-term care insurance in 1994, with broad cross-party support, saw the creation of a sustainable mostly public welfare funding institution that complemented the existing regional government, taxation-funded approach. By contrast, the Conservative partial dismantling of UK public earnings-related pensions in the late 1980s was a move towards greater private provision and strongly opposed by opposition parties. What both reforms shared was a clear path to a new devolved funding solution built using existing institutional solutions that was better aligned with a de-centred approach to welfare than the existing, relatively underdeveloped,

“point of stability” (Baumgartner and Jones, 1993, p.22). Both reforms institutionalised sustainable, non-taxation, programme-specific welfare funding. These two relatively heterogeneous comparator cases contribute to the research project in various ways. Firstly, the chapter explores the development of two social care funding reform options (German-style public social insurance and UK private auto-enrolment pensions) that are being considered by policymakers in England (Espadinha, 2018; Malnick, 2018; HC 2017-18, HC768, pp.3-5). Secondly, the cases allow us to use process tracing and Mill’s method of agreement to generate a set of explanatory variables consistent with successful funding reform in two heterogeneous comparators. Finally, they demonstrate the ways in which a focal funding institution, once established, can deliver enhanced welfare programme outcomes over time.

The chapter argues that in both cases the relevant policymakers perceived that there was a long-term funding problem and broadly agreed on what needed to be done. Existing institutional structures and approaches guided the policy debate and the reforms introduced drew heavily on trusted, alternative funding institutions that were already in place. In both cases, these alternative funding institutions were more consistent with the policy preferences of the relevant policymakers than the existing funding models and higher expenditure was less of a concern than moving to a preferred, readily implementable new funding approach. When a reform opportunity emerged, policymakers employed a regulatory approach to policymaking, first repurposing and, in the decades that followed, steering the funding institutions that they had engineered. Funding reforms were built using hundreds of de-centred funding institutions which already existed and could be adapted by policymakers at low political cost.

In the first analytical section of the chapter, we explore the introduction and post-reform development of the German long-term care insurance system. This is followed by a similar review of UK earnings-related pension reform and long-run institutional development. The chapter concludes by developing a set of common explanatory variables that were shared by both sustainable funding cases when funding reforms were enacted. In chapter six, this set of reform case variables is then employed, along with elite interviews, document analysis and observation to analyse the current English social care policy environment.

2. De-centred sustainable funding reform in Germany

In the early 1990s, German policymakers were faced with a long-term care environment that had significant parallels with that faced by England today. Care provision was mostly informal in nature and delivered by friends and family members. Where formal domiciliary or residential care provision was required this was predominantly delivered by charitable and for-profit private organisations and, unlike universal public healthcare in both countries, this was funded by the individuals requiring care and their families. Where they were unable to fund care, financing was provided by local government on a stigmatised, means-tested basis. There was widespread unease that citizens with a full employment history throughout their working lives should have to rely on such benefits and widespread agreement that the level of municipal funding and the quality of care were insufficient and inconsistent.

While the German long-term care policy environment shared similarities with the current English situation, the governance structures of the German political system, the wider welfare state and a scalable funding tradition built around de-centred, hypothecated social insurance are all very different. Following decades of discussion about the desirability of Federally mandated care funding and four years of legislative debate about the best way in which such funding might be enacted, the Christian Democratic Union (*Christlich Demokratische Union*, CDU) led coalition government achieved a broad consensus for the reform of social care funding. A mandatory, pay-as-you-go social long-term care insurance scheme was introduced in 1994. This delivered a new, nationwide social insurance layer of finance that transformed the funding landscape and significantly reduced the financial pressures on middle-income older people and on municipal and state governments. Unlike the broad expansion of the welfare state that accompanied the German post-war economic miracle (*wirtschaftswunder*), this welfare state expansion came in an era of lacklustre, post-reunification economic growth and attempted retrenchment elsewhere in the German welfare state. Path-dependent cost containment measures, the desire to create a precedent for reform elsewhere and modelling the chosen funding solution on the existing health insurance model gave policymakers the opportunity to create a new welfare institution with modestly positive funding momentum in an age of welfare state austerity. Before the reform, the conservative, corporatist (Esping-Andersen, 1990, p.27) German welfare state had four social insurance schemes, introduced by Bismarck and during the Weimar Republic, which pooled social risks and were managed by regional, guild and industry funds. In the early 1990s, there were around 500 statutory health funds which had the staff, processes and procedures required to manage wage deductions, assess individual eligibility for healthcare (and long-term care) insurance benefits and make insurance payments where appropriate. These organisational structures were used

by policymakers to engineer a fifth, mostly public, social insurance pillar of the German welfare state. Led by a respected policy entrepreneur, policymakers coalesced around social insurance because that is how the German welfare state manages social risk. Social insurance is long established, widely understood and enjoys broad popular support.

In the pages that follow, we document and analyse the detail of the German social care funding reforms that were undertaken in the mid-1990s. We then consider the national and institutional environment that preceded the reform and how existing institutional structures channelled choices and legitimised some of the potential reform options available to policymakers. This leads us to the political process of institutional renegotiation and the search for a broad consensus on the form that the reform should take. Finally, we consider the nature and institutional momentum of the social insurance fund that emerged from the renegotiation and how the processes and deliberation required to secure a broad reform consensus led to the creation of a financially sustainable, largely uncontested institution.

Mandatory long-term care insurance

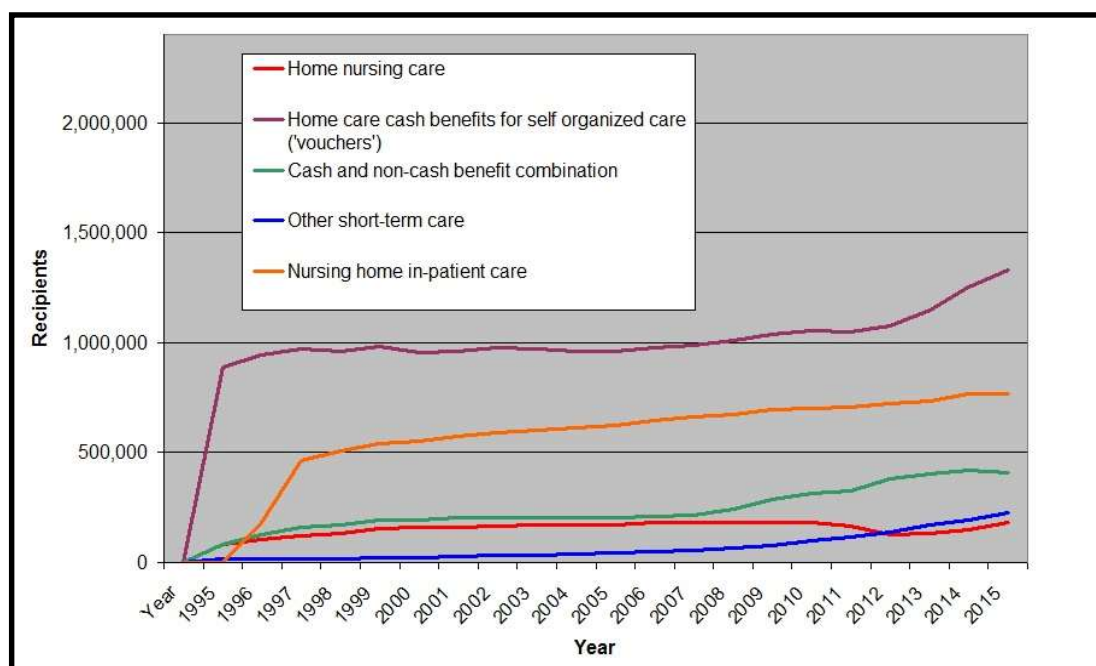
After more than twenty years of debate that focused on the familial and financial implications of the state assuming greater responsibility for long-term care risks, the political discourse turned in the late 1980s to how the state might best fund care. A bill introducing social long-term care insurance was passed by the *Bundestag* in April 1994 (Götting et al., 1994, p.285) and pay-as-you-go long-term care insurance was introduced in 1995 as the fifth pillar of the German social security system. While legally distinct, the scheme was administered by the existing health insurance funds. Private for-profit and charitable healthcare providers were encouraged to expand their existing operations and to enter the care sector to increase provision levels and choice. The reform was designed to support both informal care by family and friends, reflecting a desire to incentivise such provision, and to fund formal home-based and residential care when this was required. There was widespread unease that increasing numbers of citizens that had contributed a full working life to society were becoming reliant on means-tested social assistance payments in old age. Reducing the number of long-term care recipients reliant on social assistance was, therefore, an important policy goal. Financial pressures, retrenchment elsewhere in the German welfare state and the need to forge a broad policy consensus did, however, require that once the reform was introduced the contribution rate for current workers should remain stable for an extended period.

In this section, we review the nature of social care benefits and eligibility criteria, how the reforms fit within the existing social insurance system and cost containment measures that were designed to ensure the financial viability of the scheme.

Universal eligibility for social care funding

Eligibility for care is assessed by pre-existing health fund medical staff based on the level of physical impairment of potential recipients. Benefit assessments are not means tested and three levels of care were funded under the original long-term care insurance regime. These range from level I ('considerable need for care') where care is required daily and for an average of 90 minutes per day to level III ('extreme need for care') where care needs are constant. Funding is provided to support informal family care, formal domiciliary care and nursing home care for all three care funding levels and is available as benefits-in-kind or as cash payments. Where benefits are made available in-kind the level of expenditure is greater. The major care types are shown in Figure 4 below. Recipients in all benefit types rose rapidly between 1994 and 1997 as the long-term care insurance scheme was rolled out. Following the phased introduction of benefits, the largest recipient group has always been those receiving cash benefits to pay for self-organised care (which can be informal or formal) followed by those who are resident in nursing homes. From 1998 until 2008 (when a second care reform act made provision more generous and increased funding levels) the number of beneficiaries remained broadly constant for most recipient types, although the number of people in nursing homes rose consistently throughout the period.

Figure 4. Recipients of benefits of German social long-term care insurance by care type



Source: Federal Health Monitoring System (from accounts of the Social Long-term Care Insurance Fund, German Federal Ministry of Health)

Integration with the existing social insurance system

German citizens enjoy the benefits of five contributory, public insurance funds that are designed to reduce the social risks that they face by pooling the cost of provision. Social insurance covers unemployment, ill health, old age, disability and, from 1995, long-term care at whatever age it is required. Mandatory insurance premiums are deducted from earned income. Overall social insurance contribution rates for an average employee are currently around 40% of gross income (contribution rates for 2015 are outlined in Table 1 below)⁴³. Salary deductions and funding payments were made available for domiciliary care in the first year of operation, and this was extended to nursing homes in 1996. As with existing social insurance funds, contributions are made jointly by employers and employees on earnings up to a contribution ceiling. The ceiling for health and long-term care contributions is significantly lower than for unemployment and old age pension contributions. Non-working family members of those who contribute are also covered by the scheme and benefits are payable based on clinical need without means testing.

The social long-term care insurance scheme is legally distinct but administered by one of the roughly five hundred (Geraedts et al., 2000, p.381) existing health insurance funds to minimise the duplication of management costs (the number of public social insurance funds has since been rationalized by policymakers and had reduced to 109 by January 2019). All care insurance funds are pooled, and they are required to offer their members identical benefits. While this means that there is no competition on provision levels, risks are pooled, and the self-employed and wealthier workers can choose a mandatory private insurance option.

⁴³ In the UK payroll deductions (April 2019) include Employers National Insurance (13.8%), Employees National Insurance (12%), 'encouraged' auto-enrollment pensions (8%) and student loan deductions (9% where the employee has recently graduated). Total – 42.8%. Unlike German social insurance, UK National Insurance is not hypothecated. The funding for pensions and student loans is not pooled.

Table 1. German Social Security Contribution Rates – 2015

Social insurance type	Percentage of Gross Income Payable			Contribution Ceiling		Average Contribution €
	Employee	Employer	Total	West	East	
Health	7.300%	7.300%	14.600%	49,500 €	49,500 €	5,491 €
Unemployment	1.500%	1.500%	3.000%	72,600 €	62,400 €	1,128 €
Old age (pension)	9.350%	9.350%	18.700%	72,600 €	62,400 €	7,034 €
Accident	0.000%	1.220%	1.220%	n/a	n/a	459 €
Long-term care	1.175%	1.175%	2.350%	49,500 €	49,500 €	884 €
<i>All contributions</i>	<i>19.325%</i>	<i>20.545%</i>	<i>39.870%</i>			<i>14,996 €</i>

Notes
(1) Employer and employee pay half of the contribution for health, unemployment, old age and long term care insurance.
(2) Accident insurance is paid by employers. The average contribution rate in 2014 was 1.22% (German Social Accident Insurance - DGUV)
(3) Childless employees aged 23 or above make an addition 0.25% contribution to long term care insurance.
(4) Social insurance has a lower contribution ceiling for health and social care than for unemployment and old age insurance. The average annual social insurance contribution is calculated by multiplying average gross income of 37,613 € (OECD.stat) by contribution rates.
(5) Payments are subject to a contribution ceiling which limits the redistributive effect of social insurance. For unemployment and old age insurance the ceiling is lower in former East German Länder. The ceiling for healthcare and long term care contributions are significantly lower than for other insurance types.

Source: Bahrtd, D. and Lenz, J., KPMG (2015) and authors calculations.

Disbursements from the pay-as-you-go insurance scheme helped to reduce means-tested state and municipal expenditure on long-term care by more than 50% between 1994 and 1998 as the responsibility for funding those unable to pay for their own care was shared. The *individual risk* of old age was also reduced significantly as much of the cost of care had been funded by recipients and their families previously. The pay-as-you-go nature of the scheme allowed benefits to be paid to recipients immediately rather than being deferred while contributions accumulated as would be the case had a capital-based fund been introduced⁴⁴. This approach delivered horizontal income redistribution from the working population to those in need of social care. German long-term care insurance does not, however, deliver significant levels of vertical redistribution as those on higher incomes can opt to join private schemes (which can offer lower contribution rates) and contributions are subject to a payment ceiling. Riedel (2003, p.277) notes that where citizens previously opted for private health insurance, they have a choice between mandatory public and private long-term care insurance. Where they choose funded private insurance, they make individual mandatory payments into an insurance fund. The maximum premium payable is set by the state and younger scheme members are required to make a transfer contribution to older scheme members.

⁴⁴ The SERPS privatisation case discussed later in the chapter involved moving from an unfunded public pay-as-you-go pension scheme to a funded private scheme. This was popular but had a negative impact on short-run public revenues as mandatory pension contributions made were used to buy private pension assets rather than accruing to the UK Treasury.

Cost containment and financial stability

When German policymakers were designing the new social long-term care insurance scheme, they drew on decades of experience with existing social insurance schemes that enjoy widespread popular support. They sought to address public concerns about the underfunding of care and disquiet about the stigmatised nature of means-tested social benefits payments for older people. These concerns were, however, tempered by a desire to minimise deduction levels, ensure the financial stability of the scheme and to engineer a modern social insurance scheme that could be a template for reform within existing schemes. To contain costs the fund was designed with clear definitions of insurance payment eligibility, clearly defined (and priced) benefits and a cap on the level of overall and individual benefits payable. Benefit payments were not indexed to inflation and were not designed to meet all long-term care costs, but rather to make a universal contribution to care expenditures based on need rather than financial circumstances. Overall long-term care expenditures were also legally capped at the total current and accumulated past contribution income from scheme members (Geraedts et al., 2000, p.387).

After a large increase in overall public funding at programme launch, the social insurance approach delivered a decade of stable, path dependent funding for long-term care. Funding increased gradually with growing average incomes and overall expenditure also rose as more scheme members became eligible for care. The rising absolute and relative cost of care delivery was not, however, adequately covered by the initial terms of the insurance scheme as the level of payments remained constant *in nominal terms* between 1995 and 2008. This programme feature caused an on-going decline in the real value of long-term care insurance payments and became an issue of growing political importance. Policymakers returned to this issue in 2008.

Summary – a positive policy development

The introduction of social long-term care insurance in Germany is widely viewed as a positive policy development (Frisina-Doetter and Rothgang, 2015, pp.16-17). Membership of a long-term care insurance scheme is compulsory for all those in work. The schemes cover those who make contributions and their families and is legally distinct from, but administered by, the statutory health insurance funds. Most citizens are covered by pay-as-you-go public insurance, but a funded private scheme is also an option for those on higher incomes. Three levels of care were stipulated when the scheme was first introduced, and all funds are required to offer identical benefits. Contributions are subject to a payment ceiling, limiting the redistributive effect of social insurance and all funds are pooled. No competition is permitted between funds on the level of benefits receivable, although contribution rates can vary.

Before the reform

This thesis employs a “framework for the explanation of path dependency and deviation” Spohr (2016, p.258) that combines the insights of historical institutionalism with Kingdon’s multiple streams analysis. Historical institutional explanations of organisational change and institutional formation, in common with multiple streams, often focus on the role of individual agency during windows of opportunity or crisis (Capoccia, 2016, p.89). While Slater and Simmons (2010, p.911) accept the value of this analysis, they argue that the choices available to policy entrepreneurs during these “critical moments for path deviation” (Spohr, 2016, p.269) are structured and constrained by causal factors that develop before critical junctures open. They assert that these critical antecedent variables combine with choices made during critical junctures to determine policy outcomes. In this section, we review critical antecedents, exploring the national and institutional environment that channelled the policy options and choices available to German policymakers in the 1990s.

National environment

While accepting that all welfare states are hybrids that feature a variety of ways of delivering welfare, Esping-Andersen (1990, p.21) used the level of labour de-commodification achieved to categorize welfare states into broad national types. He argued that the evolution of the welfare state has not simply been a whiggish (Powell and Hewitt, 2002, p.173) linear improvement over time, but that three very different welfare state regime types have developed: social democratic, conservative and liberal. For Esping-Andersen, Germany is a conservative, corporatist welfare state and the primary motivation of policymakers has been to reinforce and protect existing social structures and hierarchies. Welfare state funding is predominantly via mandatory social insurance, provision involves private, often not-for-profit institutions in welfare delivery and the traditional nuclear family remains a key focus of welfare.

While social insurance schemes that pooled the risks of unemployment, old age and ill-health had been in place for decades, long-term care was historically deemed to be a marginal, individual risk, impacting few and falling within the domain of the family. Broad federal programmes would not be able to tailor care to local circumstances, so care management by municipalities and *Länder* was more appropriate.

Demographic, social and economic change

German society, in common with much of Europe, has experienced three long-run socio-economic trends that have combined to increase the profile and societal impact of the long-term care needs of older people. The localised effects of these trends were exacerbated by the post-reunification

migration of younger people away from the *Neue Länder* as unemployment rose rapidly in the former DDR (*Deutsche Demokratische Republik*) from 1991 onwards. Firstly, rising life expectancy and falling birth rates have caused an increase in the German old-age dependency rate (the proportion of the population that are aged over sixty-five) from 11.5% in 1960 to 15.4% in 1995 (when social long-term care insurance was introduced) and 21.5% in 2017 (World Bank, 2018). The equivalent rate in the UK was 18.5% in 2017 (World Bank, 2018). As the dependency rate rises, the ratio of people needing long-term care to those in work is likely to increase. Secondly, the female labour force participation rate in Germany rose from 45.5% in 1970 to 60.9% in 1994 and 73.1% in 2015 (OECD, 2016). Most *informal* long-term care is provided by a spouse, daughter or daughter-in-law. As the level of female employment has increased, the availability of non-spouse, informal family carers has reduced and the opportunity cost of family care for older relatives has risen. Finally, the cost of health and social care, where labour productivity gains have been modest compared to non-service sectors of the economy, has been rising relative to other societal goods for decades (Baumol, 2012, p.4). This trend means that even if the old age dependency rate were stable (which is not the case) per capita expenditure on social care would need to rise by more than the rate of inflation to retain existing levels of care provision.

There are policy choices and demographic trends that can help to mitigate these factors. These include moves to raise the retirement age, improvements in preventative healthcare leading to later incapacity for older people and rising relative male life expectancy making it more likely that a male spouse can deliver care for longer, but the overall trend is towards rising care needs and a decline in the ability of the family to provide care.

Political structures

Germany is a federal republic of sixteen *Länder*. The political system features the formal separation of powers between federal and state government. There is a bicameral parliamentary system, with a directly elected lower house (*Bundestag*) and an upper house (*Bundesrat*) made up of *Länder* appointees. The upper house has the power of veto over any legislation that impacts the interests of the *Länder*. More than half of legislation passed in the 1990s was deemed to fall into this category (St. Louis (2011, p.175). This governance structure gives significant power to local and state governments. Representatives in the lower house are selected via a combination of *Länder* party lists and individual elected members for local districts. Beyond the bicameral parliamentary structure, political, social (unions and employers), legal and financial (*Bundesbank*) institutions also enjoy multiple formal and informal veto points and there are numerous structural impediments to non-incremental change. This

governance structure has engendered a political culture where major decisions relating to the welfare state (and beyond) are usually taken by consensus.

St. Louis (2011, p.167) notes that the CDU and SPD (*Sozialdemokratische Partei Deutschlands*) are mass people's parties (*volkspartei*) with quite distinct business and social (labour, women and youth) wings. She argues that in the decade preceding the vote to introduce social long-term care insurance the social wings of both parties shared many social policy preferences. The business wing of the CDU was, however, more closely aligned with the liberal FDP (*Freie Demokratische Partei*) with whom the CDU and the Bavarian CSU (*Christlich-Soziale Union in Bayern*) were in coalition between 1982 and 1998. The relative strength of the business and social wings of the coalition parties and within the SPD influenced the direction in which the long-term care debate would be resolved.

Pre-existing institutional arrangements

Germany has four popular, established social insurance schemes that long pre-date the introduction of social long-term care insurance. These funds pool social risk, are built on the concept of social solidarity and are funded by wage deductions. The pre-existing health insurance scheme was made up of around 500 statutory health funds grouped into seven broad associations based on region, guild or industry type (Geraedts et al., 2000, p.381). While there are funds that serve individual companies, most scheme members are part of large region-level schemes and all are free to move between funds. The health funds have processes, procedures and institutional structures in place that allow them to manage contribution deductions from wages, assess individual eligibility for healthcare (and long-term care) insurance benefits and to make insurance payments where appropriate. Funding and provision are distinct. Social insurance funds have always been separated from the organisations that deliver in-kind services although historically there were close links between organisations and little role for the market. The earned rights and universal social insurance model is also widely preferred to stigmatised, means-tested benefits by potential and current recipients.

In the 1990s, with unemployment rising and the cost of reunification growing, the level of non-wage labour costs became an increasingly important issue. Employers, the business wings of the CDU/CSU and the FDP argued that the high (and rising) cost of labour relative to capital was driving joblessness by incentivising labour substitution. The existing social insurance funds were under significant financial pressure. To ensure that they remained solvent, policymakers raised contribution rates and made on-going attempts to retrench provision levels. Health insurance reforms were introduced in 1989, 1992 and 1995 to move away from the existing defined benefit focus toward one where policymakers targeted a contribution level (defined contribution) and then implemented on-going provision

‘adjustments’ to manage contribution growth. While the contribution rate rose throughout the 1990s (see Table 2 below), social insurance contribution rates have since fallen as cost reduction measures have developed, and by 2015 were below the psychologically significant rate of 40% (St. Louis (2011, p.240) that was targeted by policymakers (see Table 1 above).

Table 2. Growth in German Social Security Contribution Rates – 1990 to 1998

Social insurance type	1990	1991	1992	1993	1994	1995	1996	1997	1998
Health	12.6%	12.2%	12.7%	13.4%	13.2%	13.2%	13.5%	13.5%	13.6%
Unemployment	4.3%	6.8%	6.3%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Old age (pension)	18.7%	17.1%	17.7%	17.5%	19.2%	18.6%	19.2%	20.3%	20.3%
Long-term care	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	1.7%	1.7%	1.7%
<i>Contributions</i>	35.6%	36.1%	36.7%	37.4%	38.9%	39.3%	40.9%	42.0%	42.1%

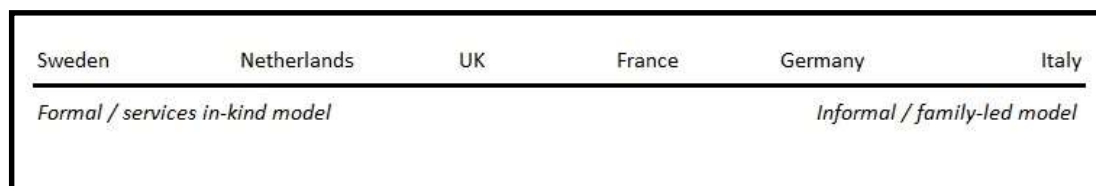
Notes: Employer and employee pay half of the contribution for health, unemployment, old age and long term care insurance.

Source: St. Louis (2011, p.207)

An underdeveloped care sector

Before the phased introduction of social long-term care insurance between 1994 and 1996, *formal* domiciliary and residential care in Germany was paid for by those in care and their families. When ‘self-insurance’ funds were exhausted, care recipients would turn to the means-tested social assistance system that was managed and funded by local government taxation. Funding and provision levels were widely seen as being underdeveloped and insufficient. Most social care was unfunded and delivered *informally* by family and friends. In such cases, care was predominantly carried out by a spouse, daughter or daughter-in-law. Private long-term care insurance policies had been available since the mid-1980s, but policy take up had been very low. Growing demand and the failure of the private insurance market to achieve significant coverage combined to increase the number of older people who were reliant on social assistance to fund their long-term care. This was particularly the case for those who entered nursing homes. The lack of universal public funding left the care sector underdeveloped in comparison with other European countries, including the UK, and staffing levels were low. Pavolini and Ranci (2008, p.247) reviewed the structure of care in the mid-1990s and categorised countries based on the percentage of those aged over 65 receiving *formal* domiciliary or residential care. Sweden (21%) and the Netherlands (17%) were high, the UK (14%) and France (12%) medium and Germany (7%) and Italy (3%) had low levels of formal provision. They placed European long-term care approaches on a continuum (see Figure 5 below) from Sweden, with an in-kind service-led approach to Italy with a strong tradition of care being part of the family domain. Before the introduction of social insurance, the German social care system was relatively underdeveloped.

Figure 5. Long-term care policy continuum



Source: Pavolini and Ranci (2008, p.249)

Summary – reform required a broad consensus

The German political system has multiple veto points, so major institutional reform usually requires a broad cross-party consensus. Germany also has a conservative, corporatist welfare state tradition with de-centred provision and funding, benefit payment differentials that reflect past employment status and income, and a structure designed to pool social risks and support traditional welfare institutions such as church and family. Where social welfare provision is deemed appropriate, pay-as-you-go social insurance has long been the preferred funding method. This insurance-based approach traditionally relied on defined benefit models that came under growing financial strain in the 1990s. Demographic, social and economic changes increased the demand for and cost of *formal* long-term care provision in the 1990s at a time when the supply of *informal* (family) care was declining.

The institutional renegotiation

Two months before the 1990 general election, Norbert Blüm, of the CDU labour wing and Minister for Labour and Social Affairs (1982-1998) announced that a new social insurance scheme for older people would be introduced during the next parliament. He argued it was the duty of the CDU to guarantee that older people were cared for appropriately and, acting as a political entrepreneur (Götting et al., 1994, p.292), he started the institutional renegotiation that culminated in domiciliary care (1995) and nursing care (1996) being supported financially by a new pillar of the German social insurance system. This was the first new social insurance pillar to be introduced since the 1930s. For Götting et al., the introduction of long-term care insurance was a remarkable development. The expansion of care funding was implemented at a time when other areas of the welfare state were under considerable strain and the major focus of policy making was programmatic retrenchment. They also note that the introduction of a new universal social insurance scheme with *mandatory*⁴⁵ contributions deducted from wages is unparalleled in the post-golden-age welfare state era in Europe. Frisina-Doetter and

⁴⁵ The thesis argues that the UK auto-enrolment pension scheme introduced in 2012 (and discussed later in this chapter) has used fiscal welfare, regulatory welfare and behavioral economics to deliver a similar quasi-mandatory contribution outcome.

Rothgang (2015, p.45) argue that two complimentary discourses facilitated the introduction of social long-term care insurance in the retrenchment era. Social solidarity concerns suggested it was inappropriate that German workers with a full working life behind them had to rely on means-tested welfare to pay for long-term care in old age. This was contrary to the social insurance approach adopted by much of the German welfare state which focuses on ensuring individual status maintenance in the face of the “standard risks of life” (Götting et al., 1994, p.295). A second, fiscal discourse was focused on the rising municipal costs of funding residential care for older people across Germany.

While discussion about the desirability of long-term care reform lasted more than two decades and encompassed a variety of potential funding approaches, the final debate was focused on two models of compulsory care insurance: public pay-as-you-go social insurance and private funded insurance. A variety of alternative approaches had been considered and discarded. These included retaining the existing locally managed and funded approach, transferring the responsibility for taxation funded care to the federal level and transferring responsibility for funded care to the existing health insurance funds. In the section that follows we explore the political processes around the institutional renegotiation, the ways in which pre-existing institutions mediated policymaker decision making, and the financial implications of the choices made.

Building a political consensus

When Blüm announced his social long-term care insurance plan in 1990, he could rely on the social solidarity-based support of the social wing of the CDU and the financially driven support of the CSU who were keen to reduce the cost of long-term care provision to Bavaria. The SPD were advocates for increased Federal spending on long-term care for older people to relieve care recipients and the *Länder* of care costs but, unlike the Green party who were strongly in favour of taxation funding, were undecided on whether this should be funded via general taxation or social insurance. The party was, however, keen to ensure that funding was progressive and, if the social insurance route were taken, not subject to the low contribution ceiling of the existing health insurance scheme that focused contribution costs on those with average incomes. For the SPD, the introduction of long-term care insurance was an opportunity to demonstrate the benefits of a social insurance scheme with high / no ceilings, a much broader funding base and greater levels of redistribution (Götting et al., 1994, p.307) which would allow a lower contribution rate. The liberal FDP (coalition partners with the CDU/CSU from 1982-1998) and the business wing of the CDU were firmly opposed to social insurance and argued for a fiscal welfare approach that incentivised non-mandatory private provision using the tax system.

Following the general election in December 1990 that returned the CDU/CSU/FDP to power, two opposing positions championing public and private insurance emerged from the social and business wings of the governing coalition. The SPD proposed a *Bundestag* social insurance bill in the summer of 1991 that embodied their progressive funding approach. This was defeated but cross-party negotiations continued with the SPD making clear that the party would veto any proposals that did not major on public social insurance in the *Bundesrat* where the party had a majority. The eventual outcome of extended coalition / SPD negotiations was a compromise that gave citizens a choice between a pay-as-you-go public insurance solution that incorporated the contribution ceilings of the existing health insurance scheme (and was, therefore, much less progressive than initially demanded by the SPD) and a funded private insurance option, as proposed by the FDP. Scheme membership was, however, mandatory. To further accommodate the business wing of the CDU and the FDP, the bill also dictated that employees should lose a day of paid holiday to fund the initial employer contribution to long-term care insurance. Strict cost control measures were also enacted to ensure that the contribution rate would remain stable for a decade.

Pre-existing institutions guide policy choices

The hybrid funding approach adopted in 1994, after extended political negotiations, moved the focus of care funding away from societally unacceptable, regionally variable, means-tested benefits towards a much more popular universal approach that was derived from a combination of existing social and private insurance norms and pre-existing institutions. When institutional change is required, DiMaggio and Powell (1983, p.147) argue that three processes drive policymakers to change institutions in ways that make them more homogeneous: Formal and informal influences on new institutional structures including legal, regulatory and cultural requirements that restrict potential choices, the desire to model new institutions on existing ones that are perceived as being successful and legitimate and the drive to standardise institutional management practices. Social insurance-based financing was a major national policy change that transformed and stabilised the funding environment for long-term care. As predicted by DiMaggio and Powell, the chosen policy option was congruent with the conservative (Esping-Andersen, 1990, p.27) welfare regime, enjoyed significant legitimacy with policymakers and the wider public from experience with social insurance structures in other welfare areas and reduced launch and running costs by using existing health insurance medical staff and administrative systems. It also facilitated reduced expenditure by local government and reduced the reliance of older people with a lifetime of work behind them on stigmatised, means-tested benefits.

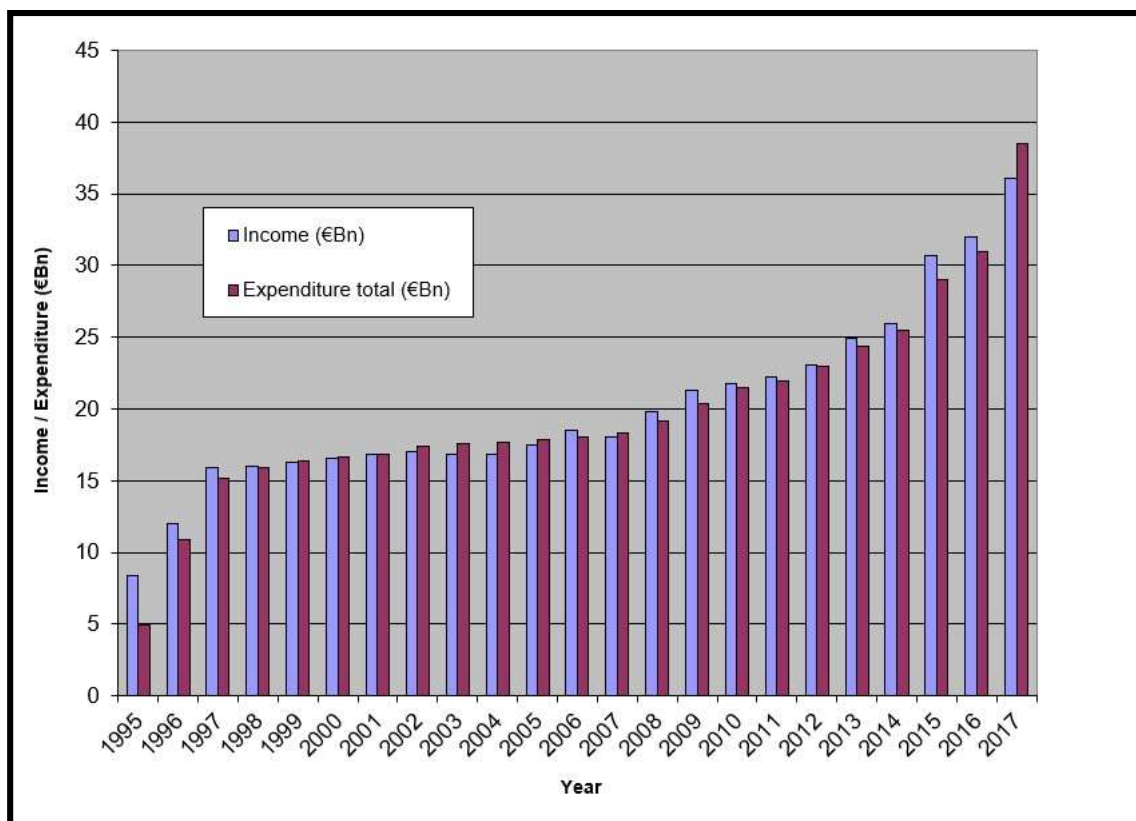
While the SPD saw the introduction of social long-term care insurance as an opportunity to demonstrate the benefits of a more redistributive approach to welfare funding, the institutional

calibration and forward momentum that emerged from the process of building a consensus around reform had a very different focus. A policymaking environment focused on wider welfare state retrenchment in the existing social insurance pillars and a belief that market solutions should be embraced limited the initial scope of the new fifth pillar. A new, relatively less generous pillar could be framed as a precedent for reform elsewhere. While the introduction of long-term care insurance saw a large increase in welfare state expenditure on social care, Frisina-Doetter and Rothgang (2015, p.46) argue that this was a reshaping of the welfare state and not an expansion. The introduction of care insurance was accompanied by retrenchment elsewhere and the system was conceived as being a defined (fixed percentage of salary) contribution scheme in the medium term, although there was an expectation that contributions would have to rise in the longer term, rather than a defined benefit scheme. Benefits payable were fixed (with discretionary adjustments for inflation) and eligibility criteria was strictly defined.

Long-term care expenditure change

The reforms enacted in 1994 caused a large increase in non-family financing of long-term care expenditure. Between 1994 and 1998, the level of pay-as-you-go social insurance spending on care rose from €nil to €15.9bn (see Figure 6 below). Insurance payments were made to 1,794,665 recipients in 1998 with most opting for pure cash payments. These 'voucher' payments can be used to fund both informal and formal care. Prior to the funding reform, long-term care was paid for by care recipients and their families. Where funds were insufficient, local government stepped in with means-tested support and this support mechanism remained in place. The introduction of social long-term care insurance payments did, however, introduce an additional layer of universal funding that reduced the need for care recipients to turn to stigmatised means-tested social support. Zuchandke et al. (2011, p.225) note that such locally funded means-tested payments decreased significantly with the introduction of care insurance, from €6.6bn in 1994 to €2.7bn in 1998 and that the number of recipients of means-tested benefits fell from more than 450,000 to 284,000 over the same period. Overall public spending on long-term care rose from €6.6bn in 1994 to €18.6bn in 1998 (an increase of 181%) and 85% of care funding in 1998 was paid as social insurance payments and not means-tested benefits.

Figure 6. Income and expenditure of the German social long-term care insurance fund (1995 to 2017)



Source: Federal Health Monitoring System (from accounts of the Social Long-term Care Insurance Fund, German Federal Ministry of Health)

Summary – critical antecedents and compromise mediated institutional form

The hybrid social / private long-term care insurance structure introduced in Germany in the 1990s, after an extended period of institutional renegotiation, was mediated by the wider retrenchment agenda, pre-existing institutional and political structures and coalition dynamics. A desire for broad consensus guided how the institution was calibrated and would develop over the following decade. Cost containment measures led to modestly rising expenditure and the low contribution ceiling was designed to align the financial interests of those on average incomes with the focus on cost control. While the introduction of social long-term care insurance led to a significant increase in overall welfare spending, non-indexed benefits and a defined contribution focus were consistent with attempted retrenchment in the four existing social insurance pillars. This allowed policymakers to frame a significant extension in welfare effort as a new, less generous social insurance pillar that could act as a precedent for reform elsewhere.

Institutional momentum after the reform

The introduction of social long-term care insurance precipitated a dramatic fall in means-tested social assistance payments made by states and municipalities in the years that followed. With social insurance benefit payable for informal family and formal domiciliary care, more care recipients could stay in their own homes for longer. Social long-term care insurance also increased the sense of financial security amongst those that needed, or were likely to require, long-term care (Zuchandke et al., 2010, p.641). This trend was particularly pronounced amongst those on middle incomes who would not have qualified for means-tested social assistance. These developments were widely welcomed by state governments, care recipients and their families. Despite the professed desire of policymakers to support informal family provision, the presence of long-term care insurance has influenced the balance between informal and formal care choices made by German families. The number of claimants has risen over time as has the propensity of older people to choose formal, residential care. While rising demand for formal nursing home care was predictable, cost control measures that were introduced as part of the institutional renegotiation process meant that stable, defined contribution funding would fail to keep pace with claimant growth and rising care costs.

Cost control measures were unsustainable

Combined employee and employer contributions to the social long-term care insurance fund were initially fixed at 1.7% of gross wages up to a contribution ceiling. This gave the insurance fund a path dependent funding solution where overall funding was likely to rise over time as average incomes increased. This fixed (as a share of individual income) contribution regime saw annual contributions rise over ten years from €16bn (1998) to €18bn (2007).

Benefit payments were not designed to meet the full cost of care at programme inception, and there was no automatic mechanism to increase fixed per capita care payments over time. Insurance benefit payments would contribute to the informal care costs of families and form part of layered funding for those entering a nursing home along with pension payments and other sources of income. Following the introduction of long-term care insurance, the nominal value of individual care payments did not rise between 1995 and 2008. Cumulative inflation significantly reduced the value of care insurance payments over that time, the number of care recipients receiving social assistance payments rose, and the sense of financial insecurity amongst older people began to fall back to pre-1994 levels (Zuchandke et al., 2011, p.226). While this non-indexed approach to funding, was defensible (and relatively uncontested) where relatively new, universal cash payments were being made on a pay-as-you-go basis to recipients with minimal lifetime contributions to fund informal family care or formal

domiciliary provision, the fixed and relatively low level of funding was less appropriate when paid to care recipients in a nursing home context. Doetter and Rothgang (2015, p.14) reviewed the average amount paid for nursing home care in 2013, breaking it down into nursing costs, 'hotel' (room and board) costs and capital investment costs. For all three levels of care provision, they note that the level of uninsured costs, payable either by the care recipient, their family or by social assistance, were greater than insurance payments and that the insurance payments failed to even cover the nursing care costs.

Hypothecation reduced funding flexibility

When long-term care funding options were being considered by policymakers the legally protected, hypothecated nature of a separate insurance fund was deemed to be a virtue. As cumulative member contributions built over time, near property rights to future insurance payments would protect funding in straightened times in a way that would not be possible where care was funded via direct taxation. The problem (as articulated by those that favoured a taxation funded solution) with such an approach is that once the path dependent institution is in place, this lack of policymaking flexibility makes varying contribution and benefit rules more problematic. The need to achieve consensus in the negotiations to create the welfare programme led to a stable deduction rate from salaries and fixed nominal benefit payments. It was clear at launch that this funding approach would be insufficient to deal with both a rising old-age dependency ratio and rising relative care costs (Baumol, 2012, p.4). While care insurance funding was configured to allow payments to increasing numbers of recipients over time, the risk of rising costs was not pooled and remained with care recipients and their families.

The structure of social long-term care insurance made it very likely that contribution and provision levels would need to be revisited regularly. As care costs rise the need for funding renegotiation also opens the door for a consideration of how the overall scheme might be improved. As anticipated at launch, this dynamic has delivered periods where institutional momentum has been stable interspersed with step changes in the level of funding and provision. These step changes occurred in 2008 and 2014-2015.

Institutional reconfiguration in 2008 and 2014-2015

The chosen calibration of social long-term care insurance programme features achieved the twin goals of reducing the need for *Länder* funded means-tested benefits and contribution stability for more than a decade (1994-2007). The new pay-as-you-go fund made universal, non-stigmatised social care payments to policy taking recipients who had paid minimal contributions. Growing institutional legitimacy was also engendered by high levels of policy taker satisfaction.

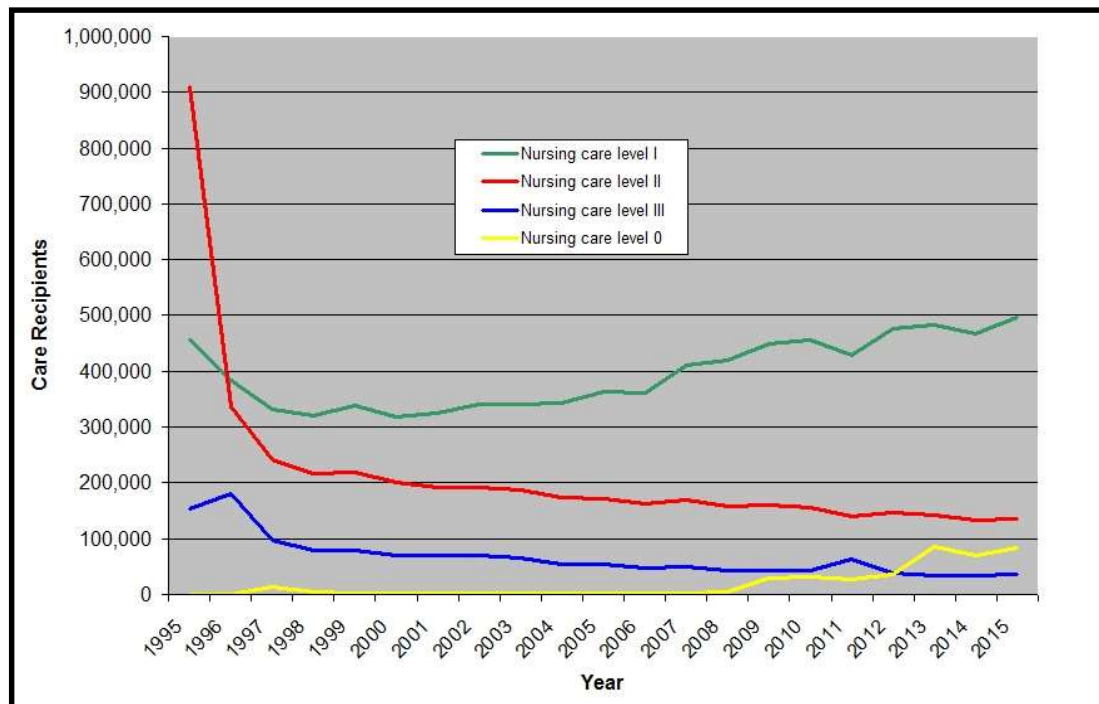
Over time the social insurance fund matured, and the levels of accumulated contributions began to build. Policy takers grew more vociferous, and the nationwide trade association of social long-term care insurance bodies gave them a focus. Cost control mechanisms, mirroring those introduced in other areas of social insurance in the 1990s, led to a gradual growth in spending that failed to match rising care costs. To bridge this gap, significant changes to the long-term care insurance programme were introduced in 2008 and between 2014 and 2015. These remained consistent with the original reform and were designed to address continuing claimant growth (that had been anticipated when the scheme was launched), to incorporate care funding needs (such as dementia where a new 'Level 0' was introduced) that were not adequately addressed by the original settlement, and to reverse some of the fall in the real terms value of insurance benefits caused by the lack of indexing.

The Long-term Care Further Development Act (*Pflege-Weiterentwicklungsgesetz*) was passed in 2008. Rothgang (2011, p.91) notes that the primary focus of the 2008 reforms was to improve the care provision infrastructure. The reform drew upon more than a decade of experience with the new insurance system, introducing rehabilitation incentives payable when residents moved to a lower care level, enhanced quality assurance measures and the introduction of care support centres for families. Benefits were also increased in 2008, 2010 and 2012. The increases were relatively modest, more generous for those receiving home care benefits-in-kind and least generous for those in a nursing home. Rothgang argues that these reforms did little to address the decline in the real value of care insurance payments between 1994 and 2008. The reform mandated the government to review benefits every three years and to adjust *where appropriate*. Cost containment remained a theme as the adjustment mechanism remained non-automatic. The contribution rate from wages was increased by 0.25% (from 1.7% to 1.95%) from 2008 onwards, delivering an additional €2.6bn in funding per annum. The impact of these reforms can be seen in Figure 6 above, which shows the impact of an increased contribution rate and higher benefits after slow growth in both between 1997 and 2007. Rothgang notes that the increased contribution rate would only ensure fund solvency until 2014.

To meet this further funding shortfall, additional reforms were introduced in 2015 by *The First Long-Term Care Strengthening Act* (PSG I, 2014). This continued the theme of catch-up payments for past inflation (a 4% benefit uplift), enhanced provision (improved dementia coverage, greater funding for respite care, enhanced rehabilitation payments and home modification grants), improved quality assurance / a requirement that all care staff be paid in accordance with collective pay agreements and higher contribution levels (the contribution rate increased by 0.3%) (Federal Ministry of Health, 2014). *The Second Long-Term Care Strengthening Act* (PSG II, 2015) added to these reforms in the following year. This revised the ways in which care needs are assessed with five categories of need replacing the

existing four and the definition of care need being extended to include mental and psychological impairment as well as the initial focus on physical need (Bäcker, 2016, p.2). All current recipients continued to receive at least the same level of benefit that they received previously and many, particularly those with dementia, receive significantly more. To fund the reform, the base contribution rate rose again by 0.2% of wages in 2017.

Figure 7. Granted applications for the assessment of need of care in Germany (1995 to 2015)



Source: Federal Health Monitoring System (from accounts of the Social Long-term Care Insurance Fund, German Federal Ministry of Health)

Figure 7 above shows the number of new applications for care funding granted in each year between 1995 and 2015. This shows a trend away from the two higher care levels towards the lowest level of care (Level I – ‘considerable need for care’) and an increasing number of care recipients in Level 0 (dementia care) from 2009 onwards.

Summary - cost control, institutional legitimisation and rising contributions

The initial institutional design for German social care insurance, arrived at by consensus, engineered using popular, pre-existing organisations and costed in detail, delivered a decade of funding stability that built legitimacy levels, but saw a decline in per capita benefits in real terms. Long-term care insurance was not widely contested initially, despite flaws in the ways in which it was implemented, but over time it became clear that greater funding was required. The institutional reconfiguration that

was enacted in 2008 made modest changes to the social long-term care insurance system and increased contributions by 0.2%. More recent reforms, passed in 2014 and 2015, have been more radical and required a greater increase in the overall level of funding. When changes were introduced, they were long overdue (Rothgang, 2011, p.95). Having been relatively stable between 1997 and 2007 (rising at less than 2% per annum) income and expenditure have since accelerated, growing at 7% per annum between 2007 and 2015⁴⁶.

Welfare state expansion by consensus using established funding institutions

The introduction of nationwide, mandatory, social long-term care insurance in the mid-1990s was a major milestone in the development of the German welfare state. Formal social care provision in Germany was underdeveloped in comparison with many European countries; the reforms acknowledged that non-acute care was a social risk and coverage (both public and private) was universal. The new social insurance scheme delivered an additional layer of de-centred funding that had a significant impact on the financial position of German *Länder* and municipalities. While overall public long-term care spending rose from €6.6bn (1994) to €18.6bn (1998) as the reform was implemented, locally funded care expenditure fell by more than half to €2.7bn in the same period as stigmatised, means-tested benefits were replaced / complemented by an additional layer of social insurance payments. This universal, pay-as-you-go reform rapidly improved the financial position of older middle-income citizens in need of long-term care (who had not made significant contributions into the scheme) and reduced the likelihood that they would be bankrupted by catastrophic care costs in old age.

⁴⁶ The Netherlands has also seen rising levels of social insurance spending on care over an extended period. Public social care insurance was introduced in 1968, and the country now spends a comparatively high proportion of GDP on social care for older people (Costa-Font and Courbage, 2011, p.5). Hypothecated, universal, mandatory public long-term care insurance covers most care needs and minimum levels of care are guaranteed by law. Care provision in the 1960s was minimal and fragmented, there was no obvious private funding solution available and, when policymakers were looking for a new approach, institutional tradition dictated public insurance rather than funding via general taxation. The defined benefit scheme has three funding sources: an earnings deduction, state funding from general taxation and co-payments by service users. As the care needs of citizens and per capita cost of care grow, funding increases automatically, making Dutch social care a generous, path-dependent public programme with in-built upward momentum that has crowded out formal private provision and reduced informal care. Publicly financed care is delivered formally or by family and friends, and funding is receivable as cash or in-kind and covers personal care, nursing care, housing costs and medical treatment. As the population ages, policymakers have expressed increasing concern about the financial sustainability of the model. When first introduced, public social care spending in the Netherlands was relatively marginal (0.8% of GDP), but this has since risen to 4.3% of GDP in 2014 (OECD, 2018). The payroll deduction required to fund the scheme rose from 5.4% of wages in 1990 to 13.25% in 2004, with a predicted rate without changes of 20.7% by 2020 (Gingrich, 2011, p.207). After extended negotiations, programme reforms were introduced in 2015, with expenditure reduced, access to funded residential care restricted and some non-intensive elements of care transferred to means-tested local government control.

The bicameral German political system, with a directly elected *Bundestag* and *Bundesrat*, made up of *Länder* appointees, gives significant veto power to state governments. Regional policymakers were (and remain) strongly in favour of Federal policies that reduce *Länder* and municipality level exposure to long-term care costs. While mandatory, funded, private long-term care insurance was proposed as a financing solution by the FDP and the business wing of the CDU, the desire to meet current care costs (which would not be possible with a funded solution) and to build a broad consensus around reforms led to a predominantly pay-as-you-go, public long-term care funding solution. Support for this approach encompassed much of the SPD, the social wing of the CDU and the CSU, who were all keen to implement public care funding reform. The drive for consensus did, however, dictate that a funded private insurance option was also made available for higher earners and a contribution ceiling limited the redistributive impact of the reform.

As populations grow older, European governments have introduced very different post golden age long-term care funding policies. Other than the Netherlands, this pooled, predominantly public social insurance approach has not been widely adopted beyond Germany. To understand why policymaker support coalesced around this model, we turn to existing German approaches to the management of social risks. Social insurance has been established in the country for more than a century and is a widely understood welfare funding norm that enjoys broad popular support. Public long-term care insurance also drew upon established institutional systems: the scheme is administered by pre-existing health insurance funds to minimise costs. Long-term care insurance was configured with cost containment elements that were designed, after the initial step change in launch funding, to ensure a stable, sustainable contribution rate rather than maintaining benefit levels and to set precedents for the reform of existing, more generous health and old age insurance schemes. This approach allowed policymakers to frame a significant increase in the scope of German social insurance as a measure that would both deliver more appropriate, non-stigmatised universal long-term care funding and be consistent with attempted cost containment elsewhere.

Frisina-Doetter and Rothgang (2015, p.17) assert that the German social insurance approach is well regarded among long-term care commentators, arguing that public and private hypothecation and legal guarantees that are harder to reverse in times of austerity than taxation funded provision have delivered the consistent, dependable funding that encourages investment in the sector. They also note that where social insurance contributions have been paid, and benefits have been 'earned' they are unlikely to be reversed, so any risk of a funding shortfall is borne by the publicly underwritten fund and not the individuals insured. These structural benefits of social insurance are reinforced by the contribution that long-term care insurance has made to reducing the social care obligations of the

Länder and municipalities. There is strong resistance from these tiers of government to any measures that might reduce care benefits and increase the means-tested costs that they incur. The success of cost containment measures that restrained the growth of long-term care spending between 1998 and 2007 also built institutional legitimacy while policy networks developed around social care funding and cumulative contributions grew. This created a platform for accelerating provision and funding momentum in the second decade of operation from 2008 to date.

3. De-centred sustainable funding reform in the UK

Having analysed the introduction and post-reform development of German long-term care insurance, we turn to a second funding comparator. The case focuses on the reform of UK public earnings-related pension saving in the 1980s, which has evolved over time into a 'new pension policy consensus' (Berry and Stanley, 2013, p.17) that combines an increasingly generous flat-rate state pension, a phased increase in the state pension age and automatic employee enrolment into private earnings-related pension schemes. The case provides a sustainable UK welfare funding reform comparator to English social care and allows us to explore the drivers of improving pensioner incomes over the past thirty years.

In the 1980s, the Conservative government introduced ideologically inspired welfare reforms in several non-core areas of the welfare state where lower political salience made radical welfare reforms less contentious. The changes used financial incentives to encourage a switch from public to private / market provision, transforming welfare programmes in areas such as council housing, social care for older people⁴⁷ and earnings-related pension saving. Policy changes introduced, while initially controversial, proved to be popular and were followed by a long period of political consensus on the direction of policy. In the pages that follow, we explore the gradual privatisation of public earnings-related pension saving that began with the *Social Security Act* (1986) and contrast long-run programme outcomes with those that followed the marketisation of social care provision in the same decade. While providing social care services to older people and the payment of pensions to those that have retired are very different activities, the funding requirements of both programmes are similar. As individuals grow old, it is probable that financial provision will be needed for a pension and possible that social care will be required. In both areas, it is not possible to know how long benefit funding will last. These are both welfare areas that lend themselves to the pooling of risk. While social

⁴⁷ While the political salience of English social care was relatively low in the 1980s, this situation has changed in recent years. In chapter six the thesis explores how the importance of social care policy, and associated levels of policymaker attention, have risen as the care funding crisis has developed.

care provision improved initially, a post-reform trend towards care ‘intensification’⁴⁸ accelerated after the 2008 financial crash and the sector now faces a funding crisis. Pension policy changes introduced had the opposite impact. Short-run outcomes worsened as the Conservative government broke the link between wage growth and the basic state pension. At the time of the reform, many predicted long-run pension retrenchment, but actual outcomes have seen the incomes of pensioners rise significantly.

From state-provided to state-guided earnings-related pensions

In the post-war golden age of welfare, a growing consensus developed around Keynesian demand management and full employment policies. Favourable demography and consistently high levels of economic growth left a long standing policy window open (Myles and Pierson, 2001, p.330) allowing increasingly generous welfare states to develop across the world. Contributory public earnings-related pension schemes were established in the late 1950s and 1960s in European countries such as Germany (1957) and Sweden (1960). Despite the favourable economic and political environment, no significant public earnings-related pension scheme was introduced in the UK until the end of the golden age, when a political consensus finally emerged on the need for a scheme to complement existing occupational plans (Schulze and Moran, 2006, p.59)⁴⁹. The *Social Security Pensions Act (1975)* introduced the State Earnings-related Pension Scheme (SERPS), and it began operation in April 1978. Where the employed did not have access to an existing private scheme, SERPS was a mandatory, contributory scheme with co-funding by the state, employers and the employees themselves. Organisations with existing occupational, defined benefit schemes could opt-out of SERPS and would pay lower National Insurance contributions as a result. Individual and occupational defined contribution pensions were excluded from the opt-out provisions. While the scheme was justified on a pension policy basis, it also had significant financial and political benefits for the government. Policymakers, in common with public systems elsewhere, implemented SERPS on a pay-as-you-go basis. The benefits accruing to contributors were not just unfunded; the scheme was cash generative for the Treasury for the first two decades of operation. At a time when governments had introduced unpopular incomes policies to restrain domestic consumption and inflationary pressures, public earnings-related pensions offered a popular route to higher short-run public income and lower domestic consumption that would help address persistent balance of payments problems.

⁴⁸ The intensification of English social care has seen a tightening of eligibility criteria, concentrating services and spending on those assessed as having the greatest need (Burchardt et al., 2015, p.34).

⁴⁹ Hills (1994, p.352) argues that SERPS was launched “twenty years too late” and the UK failed to embed a public earning-related pension scheme delivering income replacement for higher income groups before the end of the golden age of welfare.

After SERPS began operation, doubts were expressed about the long-run affordability of the scheme. The election of 1979 heralded the arrival of a Conservative administration with an ideological focus on reducing the size of the state. Between 1975 and 1979, the Labour government had increased the basic state pension by the higher of average earnings growth and inflation. This relatively new link between increases in the basic pension and wage growth was broken in 1980, and earnings-related pensions were reformed in the Conservative second term (1983 to 1987). The *Social Security Act* (1986) reversed the post-war trend of pension policymaking towards increasing levels of public provision, aiming to reduce the long-term cost of SERPS and increase the take-up of private pensions. While the objective of policy was to reduce public spending, the goal was *not* to reduce overall retirement saving, which would still be required (Reddin, 1984, p.11), but an ideologically driven desire to shift provision from the public sector to the private (Walker, 1990, p.377).

The 1986 reform extended existing SERPS opt-out provisions to include individual, defined contribution pensions, using fiscal welfare, financial incentives and, as unfunded public benefits lacked legal protections, reduced generosity of future public pensions, to encourage individuals to switch to private provision. Personal pensions were engineered to be more portable and flexible than existing private occupational pensions, making them attractive savings products. Unsurprisingly, the new personal pensions were very popular. The government expected that 500,000 people would switch to personal pensions in the first five years of operation. Actual take up was 3.2m in the first year (Booth and Niemietz, 2014, p.142). Privatisation of earnings-related pensions was facilitated by the lack of financial, legal or political protections that might block the retrenchment of public provision. Public funding hypothecation and the broader contributory principle had failed to become institutionalised in the fabric of the UK welfare state. This lack of hypothecation and relative pension fund immaturity in the mid-1980s, left public, earnings-related pension provision unable to withstand retrenchment pressures. The failure to index the basic state pension to rising real incomes caused pensioner poverty to rise significantly between 1984 and 1989, but privatisation did not precipitate a long run collapse in the incomes of older people. While the basic state pension, and public pension spending, remain low compared to many developed countries, UK pensioners today enjoy higher mean and median incomes than the working-age population (Belfield et al., 2015, p.35), and the number of pensioners in poverty has fallen significantly since the reform of SERPS.

Two key mechanisms have delivered improving long-run pensioner incomes in the UK. Firstly, the universal, basic state pension is protected by the high levels of public support embodied in the triple lock pension guarantee (legislation requires the basic pension to rise by the higher of earnings, inflation and 2.5% each year). Reducing the relative value of the basic state pension was not

sustainable over time, and the policy path was changed in 2011. Secondly, the 1986 pension reforms created a hybrid funding regime with mandatory contributions inherited from public SERPS and an incentivised option for individuals to divert their savings into hypothecated private schemes giving strong legal protections against benefit retrenchment. While public earnings-related pensions became a failed Bismarckian attempt at public hypothecation, ‘encouraged’ private earnings-related pensions have become an increasingly important pillar of saving. While Pierson originally argued that UK pensions had suffered significant levels of retrenchment in the 1980s (Pierson, 1994, p.53), he later revised his analysis suggesting that while privatised earnings-related pension schemes may deliver similar or greater levels of future pensioner income than public pay-as-you-go schemes, distribution is likely to be less equal (Myles and Pierson, 2001, p.331).

Pre-existing institutions and organised interests

Current pension institutions and programmes have evolved over more than a century. Pension benefits received today are driven by funding decisions, institutional structures and legal guarantees introduced, reformed and, perhaps, abolished over decades by numerous private employers and public policymakers within the Liberal, Conservative and Labour Parties. An historical institutional approach gives us the tools we need to explore the development of policymaking over an extended timeframe. While the direction of travel for public pension policy had previously seen increasing levels of public provision, the *Social Security Act* (1986) was a critical juncture in the development of UK pension policy; the Act reversed the direction of travel and began the long road to private earnings-related pensions.

In the pages that follow, we analyse policy changes and institutional choices made by the Conservative administration in the 1980s, focusing on the conditions that preceded the reform, the nature of the institutional renegotiation and ways in which pre-existing funding and provision structures shaped institutional momentum and protected pensioner incomes in the decades after the reform. Lasswell (1936) asserted that the purpose of politics is to decide “who gets what, when and how”. Drawing on this functional definition, Jacobs (2008, p.196) argues that while much political analysis focuses on the dynamics of short-run resource distribution, there are significant policy actors with an interest in the long-term (Jacobs, 2008, p. 194). Organised interests are “much more attentive to distant outcomes than the average voter” and have high levels of understanding of the issues involved. They are, therefore, a significant constraint on policymakers when they make long-term policy choices. For Jacobs, policy communities and network theories best explain pension policy reforms as policy choices made tend to impact outcomes far into the future domain of organised interests. The analysis below blends this insight with a historical approach. The process of pension reform in the 1980s was

informed and built around established and trusted (by policymakers and the wider public) self-funding private institutions. These institutions gave policymakers an existing private investment framework of organisations (the City of London, banks, existing pension funds and employers operating occupational pension funds) into which reforms could be directed.

Before the reform

Historical institutionalism considers welfare state institutions to be accumulations of past policy choices into enduring organisational rules and structures (Ebbinghaus and Gronwald, 2011, p.24). Institutional momentum tends to follow a predictable path until a critical moment for path deviation during which policymakers have greater scope to change direction by exercising individual or collective agency (Capoccia, 2016, p.89). As discussed above in the analysis of German long-term care insurance reform, Slater and Simmons (2010, p.911) argue that the range of choices available to agents during such junctures is constrained by environmental factors in place before reform happens. In the section that follows, we discuss the ideational environment at the time of SERPS reform and consider the existing pension institutions that channelled the policy options and choices that were made by Conservative policymakers in the years after the 1983 general election.

Beveridge and the New Right

During World War II, William Beveridge reviewed the system of welfare provision in the UK. In a break with pre-war means-tested welfare, the *Beveridge Report* (1942) proposed a national insurance scheme that would fund universal, 'cradle to grave' care and benefits. While his report argued that welfare was a social right and that healthcare and education should be free to all, it sought to address 'want' rather than inequality. Beveridge proposed that financial transfers should be set at subsistence level (and not be related to past earnings) to incentivise work and personal welfare provision. Many of the structures and concepts suggested and codified by Beveridge were implemented by the post-war Labour administration. The Beveridgean welfare state formed part of a broad political consensus that developed around state-led Keynesian demand management, full employment policies and a growing level of public welfare effort. While Keynesian economics has fallen from favour, the ideas of Beveridge have been remarkably resilient. The core welfare state provides free education and healthcare for all and modest, publicly funded universal benefits with eligibility based on social citizenship and need. As Beveridge intended, where additional services or insurance are required, and personal funding is available, the market is expected to deliver enhanced welfare. A pension regime built upon a flat rate public pension augmented by optional, fiscal welfare encouraged, private provision is very much a Beveridgean approach. The 1970s were a period of political upheaval and

economic failure for the UK economy. Established levers of economic management by the state began to fail. The Bretton Woods system of fixed exchange rates collapsed in 1971, and the oil crises led to on-going balance of payments problems. Commentators began to question the leading role of the state in managing the economy (Brittan, 1975) and the New Right argued that the state, far from being the answer to economic problems, had become part of the problem. The Conservative government elected in 1979 was determined to roll back the state.

Pre-existing institutions

The first pensions were introduced in the late nineteenth century by enlightened private companies and by the state for key civil servants (Hunter, 2015). A means-tested, non-contributory state old age pension was introduced by the Liberal government in 1908 (Bozio et al., 2010, p.7). Fiscal welfare also has a long history in the UK. The *Finance Act* (1921) granted tax relief for pension contributions that met certain minimum standards dictated by the state. Using tax relief as a financial incentive to guide and regulate the development of private pension provision is a long-established policymaking approach. The UK also enjoys a long-standing, highly developed private investment infrastructure. The City of London is the major financial centre in Europe and, along with New York, is one of the two largest financial centres in the world. The country is also home to the London Stock Exchange and Lloyd's insurance market. These institutions allow UK policymakers to consider policy solutions that draw upon deep capital markets and significant levels of investment expertise.

Within the UK public sector, the power of the Treasury is very significant. The Treasury has a long-standing aversion to public hypothecation and contributory benefits (Hills, 2004, p. 352). Hills also argues that policymakers tend to focus on inclusionary policies that soften the contributory principle, benefiting those on low incomes, and means-testing benefits to focus scarce resources. This lack of funding hypothecation and a Treasury desire to maximise financial flexibility and control create a system where sources of public income and expenditure are divorced⁵⁰. Where hypothecated taxation or contributory public schemes with associated benefits have been introduced (these include National Insurance, Vehicle Excise Duty and Graduated Retirement Benefit) over time the link has been broken and the generosity of promised benefits payable reduced.

Public pension immaturity and generosity

A mandatory, contributory second-tier public pension, Graduated Retirement Benefit (GRB), operated from 1961 until 1978 when it was replaced by SERPS. Employees bought graduated pension units that

⁵⁰ This welfare funding approach is very different to the German social insurance approach that hypothecates funding and encourages middle-class social solidarity by linking benefits paid to past income.

promised additional public pension income upon retirement. The scheme was modest in scope, and the value of the units was not indexed to inflation, so benefit generosity declined significantly over time (Bozio et al., 2010, p.9). SERPS was introduced by the *Social Security Pensions Act (1975)* and came into operation in 1978 (Bozio et al., 2010, p.9). When compared to other OECD countries, this was a relatively late introduction for a public earnings-related pension scheme, so the programme had yet to mature in the mid-1980s, and accrued benefits were relatively small. Where unfunded pay-as-you-go schemes have a significant amount of accrued benefits, transition to a funded scheme requires a period of, often prohibitively expensive, 'double payments' to meet existing accrued but unfunded benefits as they fall due while also contributing to the new funded scheme. SERPS immaturity meant that any reform that moved to funded, private provision would have more manageable double costs (Pierson, 1994, p. 56), although the structure of SERPS and the demography of the 1980s and 1990s had been expected to generate net annual receipts for the state from inception until the late 1990s. GRB had also generated net current receipts for the Treasury from 1961 to 1986. This income would be lost.

When introduced, SERPS was generous compared to existing private pension schemes (Nesbitt, 1995, p.20). The scheme offered complete portability, was based on the best twenty years of work (which was helpful to those with interrupted working lives), offered a saving option to the self-employed and part-time workers who had few options previously and was inherited in full by a surviving spouse and indexed to inflation. There were, however, significant weaknesses (Nesbitt, 1995, p.21). The Labour government significantly underestimated both the level of SERPS take up, and the likely cost, earnings-related pensions reinforce income inequality and contributions were not hypothecated so the government of the day could vary the level of future benefits.

Occupational pension inflexibility

Occupational pension schemes have long been the major recipients of private pension saving in the UK. The *Pensions and Lifetime Savings Association* (formerly the *National Association of Pension Funds*) represents the occupational pension sector and has a membership that includes 1,300 pension schemes with 20m members and £1tn in assets under management (Pensions and Lifetime Savings Association, 2019). With minimal levels of mostly self-regulation in place, most occupational pension schemes operating in the early 1980s were designed by employers to encourage potential employees to join them and to discourage existing employees from leaving. When employees changed jobs, accumulated contributions were often returned less an administration fee in cash to the individual or accrued pension rights were locked when an employee moved, often with little or no inflation indexation. Pension portability was low and transferring accumulated pension contributions to the

scheme of a new employer often relied on goodwill from both the former and new employer. During the 1950s and 1960s, employee mobility was relatively low, so the loss of accrued pension rights when changing jobs (the 'early leaver' problem) was not a major issue. During the 1970s, employment patterns began to change, and as levels of unemployment rose significantly in the early 1980s, the problems with occupational pensions became a matter of concern for policymakers. With the arrival of SERPS in 1978, an option to opt back into SERPS for the period of a former employment became available, but the existing occupational pension system was not well suited to a society with significantly greater labour mobility.

Unlike public pay-as-you-go pensions, most occupational pension schemes were run on a funded basis with contributions from the employer and employees (for contributory schemes) held and invested by a separate pension trust. Schemes acquired fund assets and were liable to pay accrued pension benefits in the future. Pension rights were calculated on a defined benefit basis where years of service and final salary (and not the performance of assets held by the scheme) would dictate the pension payable upon retirement. Such schemes usually offered a guaranteed minimum pension on retirement. Where pension provision was relatively generous and included features dictated by regulators, employers were permitted to opt-out of the public SERPS scheme and so enjoy lower rates of employers and employees National Insurance.

Private personal pensions

Private personal pensions were first introduced in 1956. While originally designed for the self-employed, some employed workers also used them to top up contributions to occupational schemes or, from 1978 onwards, in addition to SERPS (Nesbitt, 1995, p.30). Rights were accrued on a defined contribution basis and not defined benefit (based on final salary) as was the norm for most occupational pension schemes in the early 1980s. On retirement, an annuity was purchased using the accrued investment fund. A key feature of personal pensions, and one that was not shared by SERPS or defined benefit occupational pension schemes, was that pension income receivable upon retirement was driven by the performance of scheme investments, linking earnings in retirement directly to the performance of the stock market. Ideologically this connection was one that Conservative policymakers were keen to make.

The focus of pension policy in the 1970s had been to deliver clearly defined future benefits, with communal risk pooling at the national (public pensions) and organisational (occupational pensions) level. Individual private, defined contribution pensions did not meet the original fiscal welfare criteria dictated by government and were excluded from the opt-out provisions of the original SERPS regime.

This meant that personal pensions were marginal in the 1970s and during the first phase of SERPS (1978 – 1986). They did, however, become the institutional model upon which pension reform would be launched in the mid-1980s.

Summary – Path departing forces

As the golden-age Keynesian demand management and welfare state consensus started to break down, the Conservative government argued that an unfunded SERPS was not sustainable and that existing occupational schemes were failing to adapt to changing social and economic circumstances. While contributory earnings-related public pensions were long established and financially mature in many European countries, the concept had failed to become embedded in the fabric of the UK welfare state (Hills, 2004, p.349). Proposed changes to earnings-related pensions were consistent with the ideas of Beveridge, SERPS was relatively immature (as benefits had accumulated for less than a decade), occupational pensions were inflexible, and the UK had a highly developed private investment infrastructure into which reforms could be channelled. All these path-departing forces (Brooks, 2008, p.311) made public (and private occupational) pension reform more likely.

The modification of SERPS

In the late 1970s, there was a widespread sense that the state-led approach to managing the UK economy was failing (Nesbitt, 1995, p.33). Economic stagflation had become entrenched, and the Winter of Discontent saw the number of days lost to strike action rise to the highest annual level since the General Strike of 1926 (ONS, 2016). The Conservative party won the election in May 1979, promising to address the problems facing the country in a manifesto outlining the strategic goals of the incoming government. These focused on restoring the “health of our economic and social life” by controlling inflation, reducing trade union power, enhancing work incentives and supporting the family (Conservative Party, 1979). Pensions were not a focus of policymaking, and pension reform was not a priority. Nesbitt (1995, p.32) argues that the first-term focus of the Conservative government was reducing public expenditure, and this was the approach applied to pension policy. The previous Labour government had linked the old age pension to the higher of price inflation and wage increases. The earnings link was reversed by the *Social Security Act* (1980), and pensions were indexed to inflation alone which tends to be lower. This retrenchment measure significantly reduced expected future public pension expenditure. Deflationary monetary and fiscal policies brought inflation under control, but unemployment soared, and policy choices were strongly criticised by the economic establishment (Neild, 2012, pp.11-14) and deeply unpopular amongst the electorate. Despite presiding over the biggest recession since the Great Depression (from 1980 Q1 to 1981 Q1), the

subsequent economic recovery, boost in popularity that followed victory in the Falklands War and a deeply divided opposition led to the Conservative Party being re-elected in 1983 with an increased majority. The party election manifesto (Conservative Party, 1983) made no mention of SERPS, but the government stated it had no plans to reform the scheme (Pierson, 1994, p.60; Schulze and Moran, 2006, p.71) before and during the election.

After the election, with a weak opposition and a large parliamentary majority, Conservative policymakers felt able to consider radical policy choices that might have a negative short-term impact. In this environment, Norman Fowler, Secretary of State for Social Services (1981 to 1987) and policy entrepreneur, instituted an *Inquiry into provision for retirement* that met between December 1983 and January 1985 (Nesbitt, 1995, p.67-87). He set up the inquiry with the aim of abolishing SERPS and introducing mandatory private pensions (Nesbitt, 1995, p.87). In the face of opposition from the Treasury and an expectation from inquiry participants that SERPS would be reformed rather than abolished, when a green paper was published in June 1985 (DHSS, 1985b) complete abolition was proposed. Despite support for abolition from Margaret Thatcher, when the subsequent white paper was published in December 1985, abolition had been dropped, and it was proposed that SERPS be modified. The *Social Security Act* (1986) was, however, a fundamental change in the direction of travel of UK pension policy. In the years that followed, the accumulation of public earnings-related pension liabilities slowed significantly, and private provision was incentivised.

From policy imposition to broader consensus

Comparative studies exploring pension reform often start with Lijphart's (1984) characterisation of the UK political system as majoritarian in nature (Bonoli, 2000, p.53; Schulze and Moran, 2006, p.52). These studies argue that the first-past-the-post electoral system delivers exaggerated majorities to any party with a plurality of support, reduces the need for policymakers to form broad coalitions and makes change more likely. The primacy of Parliament under the Westminster model and the lack of a written constitution also suggests that political power is centralised on Westminster (Bonolio, 2000, p.53-56) and the strength of government whips reinforces the power of the executive. As predicted by the majoritarian model, there has been only one full coalition administration in the UK since the war (the Conservative and Liberal Coalition from 2010 to 2015).

Majoritarian interpretations of the British political tradition focus on the concentration of power and a history of policy imposition (Jordan and Cairney, 2013, p.234). Such analysis suggests that when a UK government enjoys a large parliamentary majority, policymakers should be able to implement their preferred policy choices, as there are few institutional checks on their actions. Having focused on the

majoritarian features of the UK political system, such studies struggle to explain why the Conservative Government, with a large majority and weak opposition, backed away from the full abolition of SERPS and chose to reduce the generosity of public earnings-related pension provision while making private provision more appealing. Norman Fowler's initial proposals (Fowler, 1991, p.213) were consistent with a majoritarian approach, with little attempt made to secure political consensus and low consultation amongst actors likely to be impacted by the reforms. The green paper policy proposals were, however, widely contested by a variety of interested parties and the final white paper published in December 1985 was much less radical. Jordan and Cairney (2013) discuss the dominant model of post-war policymaking in the UK and note that a small number of contested policies have been imposed by central government, often in times of economic crisis (Jordan and Cairney, 2013, p.254). For them, there is, however, significant political value in achieving wide acceptance, if not consensus, in policymaking and the usual approach for most policy decisions is to attempt to achieve a consensus with interested, informed parties. Baumgarten and Jones's discussion of "venue shopping" (1993, p.233) does, however, suggest that the policy community consulted may vary based on the dominant political party of the day. Jordan and Cairney (2013, p.255) also argue that the majoritarian view of UK policymaking is still widely held internationally and this misses much of the recent work on governance and policy networks that emphasises consensus. In the following pages, we explore the limits of executive authority in a polity characterised as majoritarian and the ways in which pre-existing institutional arrangements and a desire to achieve policy acceptance mediate the nature of reforms introduced.

The green paper

Pension policymaking in the UK had traditionally been technocratic in nature, and the introduction of SERPS in the late 1970s was preceded by widespread consultation with those who might be impacted by policy change. Schulze and Moran (2006, p.71) argue that this approach changed under the Conservatives, particularly after the 1983 election that gave the government a "sense of immortality" (Nesbitt, 1995, p.57). The style of pension policymaking became more ideological with policy driven by a managerial executive. Rising public expenditure on pensions and the inflexibility of private occupational schemes were issues that the government sought to address via market solutions. The Treasury also saw pension reform as a route to reducing medium-term government spending. In 1983, Norman Fowler announced the creation of an inquiry into provision for retirement. Fowler headed the inquiry and asserted that, while pension experts would be involved and consulted, conclusions

drawn would be a matter for him and the Conservative government⁵¹. The terms of reference stated that the inquiry would (Nesbitt, 1995, p.57);

“study the future development, adequacy and cost of state, occupational and private provision for retirement ... including the portability of pension rights and ... consider possible changes in those arrangements”.

The Treasury was originally in favour of the abolition of SERPS. When it became clear that abolition and replacement with mandatory funded private pensions would reduce pay-as-you-go pension receipts and significantly increase the cost of fiscal welfare this position reversed. Private occupational pension interests also argued that greater pension freedoms would undermine company defined benefit schemes where younger savers cross-subsidised older savers. When the inquiry concluded, no report was produced. While Fowler asserted that no policy consensus had been achieved, many members of the inquiry felt that a broad consensus around modifying SERPS, rather than abolition, had emerged (Nesbitt, 1995, p.86-87). In June 1985, despite Treasury and pension special interest opposition, a green paper was published that proposed the abolition of SERPS. Parliament debated the green paper, although the amount of time spent on the matter and degree of engagement with the substance of the policies proposed was relatively low (Schulze and Moran, 2006, p.72). In Cabinet and beyond Westminster, opposition to the abolition of SERPS was, however, substantial and virtually unanimous. Employers, the pension companies that would manage private replacement schemes and the Trades Union Congress all objected to the abolition of SERPS. Representatives of labour argued that SERPS offered valuable benefits to those with interrupted working lives and that personal pensions would be expensive to deliver and failed to pool risk. Employers shared the concerns about costs, and the pensions industry argued that abolition undermined pension policy continuity which was an important feature of retirement planning. The industry also argued that fragmentation would confuse pension savers, raise costs and could undermine existing occupational pensions.

The Social Security Act (1986)

In response to widespread opposition, the white paper *Programme for Action* (DHSS, 1985a), published in December 1985, and the subsequent *Social Security Act (1986)* dropped outright abolition and chose to reduce the generosity of SERPS while incentivising individual private pensions. The

⁵¹ In his memoirs, Norman Fowler (Fowler, 1991, pp.203-211) makes clear that his twin aims were to reform private occupational pensions and abolish SERPS as part of a comprehensive review of pensions and social security spending, giving citizens “a pension of your own” that had the same appeal as “a house of your own” (Fowler, 1991, p.211). He notes SERPS was unfunded and would become increasingly expensive, that his father died before receiving his inflexible occupational pension leaving his mother without provision, and that in his career he experienced the ‘early leaver’ problem himself (Fowler, 1991, p.203).

original SERPS scheme was intended, in an era of high inflation, to ensure that all citizens had access to an inflation-proof earnings-related pension, either through a private occupational scheme or, where this was not available, via SERPS (Bozio et al., 2010, p.45). Pension rights accruing each year were based on earned income between a lower and upper earnings limit. Where earnings were below the lower limit no rights accrued and where earnings were above the upper limit accrued rights were capped. The best twenty years of real earnings were used to calculate the earnings-related pension payable on retirement. Where an individual reached twenty years of earnings, the pension payable from the state pension age was approximately 25% of the average real wage achieved in the best employment years (capped at the upper limit). This pension was indexed to inflation for life with a widows' pension payable in full on the death of a spouse (Bozio et al., 2010).

The 1986 reform reduced the generosity of public SERPS using modifications to the way in which earnings-related pensions were calculated. The post-reform SERPS pension was calculated using whole career average earnings with each year capped at the upper earnings limit. Unlike the original scheme, this now included years where little or no income had been earned. Over time the pension accrual rate was also reduced towards 20% of career average earnings with a widows' pension payable at half of the original additional pension on the death of a spouse. Nobody retiring before April 1999 was impacted by the changes and the reduction in the accrual rate was not applied to existing SERPS benefits accrued between 1978 and 1988. As predicted by retrenchment theory (Pierson, 1994, p.19), the changes were designed to ensure that the immediate impact of the reform was negligible, but the long-run impact was very significant.

Table 3. The financial impact of SERPS modification in the UK

	1994/95 £bn	2000/01 £bn	2010/11 £bn	2020/21 £bn	2030/31 £bn
Original SERPS regime (1975 to 1986)	1.8	4.2	12.0	25.0	41.0
Post Social Security Act (1986)	1.8	4.2	9.2	14.5	18.7
Post Pensions Act (1995)	1.8	4.2	8.4	10.9	12.0

Projected expenditure (£bn in 1994/95 prices)
 Source: Budd and Campbell (1998, p.111)

N.B. This table does not include tax relief given on private pension contributions or National Insurance contributions foregone where individuals opted out of SERPS. The UK Government accounts treat these fiscal welfare costs as negative income (lower taxation / National Insurance receipts).

The deferred nature of the retrenchment in SERPS can be seen in Table 3 above. Budd and Campbell (1998, p.111) note that the impact of reforms enacted in 1986 and 1995 on public earnings-related pensions payable were relatively small up to 2011 but will be much more significant in the decades that follow with projected public spending in 2030/31 reduced by more than 70%.

While Norman Fowler wanted to reduce the future cost of SERPS, he was also keen to embrace fiscal welfare measures that would incentivise private saving. In the face of an ageing population, his stated policy objective was not to reduce the overall level of saving for old age or future pensioner incomes, but to shift the focus of provision from the public sector to the private sector (Jacobs, 2008, p.209), so the reforms also used fiscal welfare to encourage the take-up of individual private pensions. The opt-out provisions of SERPS were extended to include individual defined-contribution pensions and an additional five-year financial incentive to opt-out of the public earnings-related pension scheme was introduced. At a time of rising labour mobility, individual private pensions were also inherently appealing to an increasing proportion of the workforce. Unlike many existing occupational pension schemes, personal pensions were portable (being attached to the individual rather than the employer) and flexible (allowing the pension to be taken at any time between the age of 50 and 75) but benefits were not pooled, so they carried greater individual risk.

While public pension benefit reductions were deferred long into the future, the reductions in generosity did demonstrate that there was a significant political risk to those who chose to rely on the state for their pension provision. This realisation and generous incentives that made personal pensions more attractive led many to move from public to private pension saving in the years after the reform. The new, financially incentivised, personal pensions were much more popular than policymakers anticipated. The Department of Social Security expected that 500,000 people would opt-out of SERPS in the period between 1988 and 1993, when the additional opt-out incentive finished, and that take up would eventually stabilise at below 2m people. Actual take up was 3.2m in the first year and 5.5m workers (a quarter of the employed workforce) by 1995 (Booth and Niemietz, 2014, p.142). While not as radical a change as originally envisaged by Norman Fowler, the *Social Security Act (1986)* was a major inflexion point in the development of the UK pension regime (Schulze and Moran, 2006, pp.67-74). While earlier reforms had increased public provision, albeit slowly, the focus of the Act was to reduce the future cost of SERPS and to increase private pension coverage rates (Disney and Whitehouse, 1992, p.1). This approach was driven by the privatisation ideology of Conservative policymakers and was built using pre-existing institutions. Retaining a modified SERPS and embracing existing private pension institutions allowed the reform to be framed as a change of emphasis. The public were comfortable with the reforms as the banks and pension schemes that operated existing

private plans were long established and trusted. While the reform required an increase in the level of private pension saving, reversing into existing institutions reduced start-up and on-going administration costs. Lobbying by pension providers also successfully ensured that higher cost, lower margin savers would remain members of the existing public SERPS.

Summary – the policy community preferred SERPS modification

When the State Earnings Related Pension Scheme was first proposed in the mid-1970s, it offered policymakers a popular policy option that was cash generative and would help address persistent balance of payments problems by reducing domestic consumption. Unsurprisingly, pay-as-you-go public earnings-related pensions were introduced in 1978. SERPS was not, however, consistent with a Beveridgean approach to welfare and institutional, particularly Treasury, antipathy towards public hypothecation. Private earnings-related pensions were better aligned with institutional norms than existing policy, making successful path-departing reform more likely.

The *Social Security Act* (1986) changed the trajectory of UK earnings-related pension provision. In the years that followed, millions of savers switched their mandatory saving from unfunded public pensions to funded schemes managed by established and widely trusted private pension firms. Existing public and private pension structures, institutions and accumulated rights mediated the nature and pace of change and offered ready-made institutional arrangements into which reforms could be directed. While the Conservative party enjoyed a large electoral majority, a coalition of business and pension interests blocked the outright abolition of SERPS. City institutions and existing pension funds were unwilling to take on large numbers of low-income, high administrative cost pension savers. Employers also lobbied for reform rather than abolition as this reduced the scale of the 'double payment' problem that they faced. Following the reform, the UK pension savings regime was a public / private hybrid built around mandatory pension deductions from earnings with a highly incentivised option for individuals to opt-out of SERPS and divert their savings into private schemes. While the UK welfare state had offered limited soft hypothecation of public welfare contributions, private hard hypothecation gave individuals stronger legal protections against future benefit retrenchment.

Institutional momentum and policy consensus after the reform

In *Dismantling the welfare state*, Pierson (1994, p.15) argued that UK public pensions experienced both actual and systemic retrenchment in the 1980s. With the de-linking of the basic pension from wages in 1980 and the partial privatisation of SERPS in 1986, this analysis looked valid at the time. In 1997, the OECD predicted that UK public pension spending in 2040 would be just 5% of GDP (compared with a predicted OECD-wide average pension spend of 13.6% of GDP). The long-run impact of UK

pension policy has however been very different to these predictions. While relative pensioner incomes declined substantially in the 1980s, overall public and private pension expenditure has risen in subsequent decades. The link between the basic state pension and earnings was re-established, and while the gradual dismantling of the earnings-related element of the state pension culminated in the flat-rate single-tier state pension introduced in April 2016, hypothecated earnings-related pension saving is now delivered by private occupational schemes, personal pension funds and an auto-enrolment savings regime.

Berry and Stanley (2013, pp.5-8) argue that post-war UK pension policy has moved through three periods of broad political consensus with pension policy communities influential in guiding policy choices (See Table 4 below). Up until the 1970s, collective provision by the state and large employers delivered significantly better outcomes in retirement for some but coverage was incomplete, particularly for those without a long employment history. Mandatory saving via SERPS and after the 1986 reform, personal pensions, were intended to address this failing. More recently, the policy consensus has moved towards a more generous universal, flat-rate pension for all, with employers required to offer automatic enrolment to all employees in private pension schemes. The use of nudge theory techniques to ‘encourage’ pension participation means that these occupational schemes are quasi-optional for employees, with less than 10% of those eligible for private auto-enrolment pensions in the UK choosing to opt-out (Espadinha, 2018).

Table 4. The three eras of post-war pension policy consensus in the UK

	Policy Focus	Risk Approach	Public Pensions	Private Pensions
Collective Provision (1950s to 1970s)	Technocratic	Pooled Defined Benefit	Social Insurance Reasonably generous but excludes those without a full labour market record.	Employer Benevolence No compulsion. Generous defined benefit schemes from larger employers.
Individualised Pensions (1980s to mid-2000s)	Ideological	Individual Defined Contribution	Safety Net Real value of basic state pension in decline. Increased means-testing.	Personal Pensions Marketing of pension products to individuals by insurance companies.
New Consensus (mid-2000s to date)	Technocratic	Individual Defined Contribution	Foundation for Saving Universal single-tier pension reduces means-testing. Incentive to save.	Auto-Enrolment and Employer Contributions Employers required to offer pensions and make contributions.

Source: Based on Berry and Stanley (2013) with amendments by the author.

Pension policy is an area of considerable interest to both the public and policymakers, and the forty-year evolution from the introduction of public earnings-related pensions (1975) to a single-tier flat-rate public pension (2014) has generated a great deal of debate and legislation. Major pension-related Acts of Parliament enacted between 1975 and 2014 are detailed in Table 5 below. Following the 1986 reform, public earnings-related pension generosity and the link between contributions and benefits were gradually reduced (Hills, 2004, p.352), with SERPS and the contracting-out option for pension savers finally being abolished by the *Pensions Act* (2014). In the pages below, we explore the post-reform rise of de-regulated personal pensions, policy responses to the growing levels of un-pooled individual risk that they generated and the continued inadequacy of non-mandatory retirement saving which led to a new pension consensus around a more generous single-tier basic pension and the introduction of auto-enrolment.

Table 5. “The cement never sets on British pensions legislation” (Blake, 2003, p.vii) – Major pension reforms from 1975 to 2014

Act of Parliament	Governing Party	Reforms
Social Security Pensions Act (1975)	Labour	Introduction of the mandatory state earnings related pension scheme (SERPS). Existing private <i>defined benefit</i> occupational pension schemes integrated with SERPS via contracting out provisions.
Social Security Act (1986)	Conservative	SERPS made significantly less generous. Individuals able to contract out to private pension plans and employers can switch to contracted out <i>defined contribution</i> schemes.
Pensions Act (1995)	Conservative	Pension age for women increased from 60 to 65 (with phased introduction between 2010 and 2020). Regulatory regime / solvency criteria for occupational pensions tightened and SERPS generosity reduced.
Welfare Reform and Pensions Act (1999) and Child Support, Pensions and Social Security Act (2000)	Labour	SERPS replaced with a flat rate second pension. Voluntary, low cost Stakeholder pensions introduced to encourage those on lower incomes to save. Stakeholder pension adoption rates are low.
Pension Act (2008) and Pension Act (2011)	Labour / Coalition	Employers required to offer a private pension and employees are automatically enrolled (Phased roll-out with increasing minimum contribution between 2012 and 2018). NEST low-cost pensions are launched and adoption rates are high.
Pensions Act (2014)	Coalition	Single-tier pension to replace the Basic and Additional State Pension. The end of 'contracting out'.

Source: Schulze and Moran (2006, p.68) plus additional research.

The rise of private pensions

The 1986 reform was built on an established institutional framework of private pensions that had existed since the 1950s. From April 1988, previous restrictions on contracting out of SERPS into private personal pensions were lifted. Those who opted out of SERPS into a personal pension enjoyed the

same tax relief and National Insurance rebate as existing occupational pension scheme members. Where they had not previously opted out, they also received an additional 'rebate' for five years. Employees now had the option of a tax-effective, hypothecated and funded private, personal pension. The reforms were intended to target the self-employed and workers in industries, such as hospitality, that traditionally had low levels of pension saving. The appeal of personal pensions was, however, much broader than these excluded groups and, by 1993, five million employees had taken out personal pensions in a "personal pensions stampede" (Disney and Whitehouse, 1992). Bonoli and Palier (1998, p.324) note that of these, around four million had chosen to opt out of SERPS. When combined with those who already opted-out of SERPS via an occupational pension scheme, more than two-thirds of the working age population (13.8m employees) were saving outside of SERPS by 1995. Seven years after the SERPS reform, the public scheme formed an increasingly marginal part of UK pension saving.

The reduced generosity of the basic state pension and maturing of long-standing occupational pensions also drove a rise in the share of pensioner income coming from non-public sources. Between 1979 and 1996/97, the average real income of a pensioner / pensioner couple increased by 58%. While average benefit income rose by 39%, income from occupational pensions (up 152%) and investments (up 124%) increased much more significantly. The share of the pensioner population receiving less than half of their retirement income from the state rose from 19% to 30%, and amongst the recently retired, where policy reforms had more impact, this figure rose to 41% (Department of Social Security, 2000; Department for Work and Pensions, 2013).

Increased regulation, funding shortfalls and S2P

The rapid rise of private individual pensions in the late 1980s and early 1990s was followed by a period of consolidation. A significant proportion of those that switched to personal pensions would have accrued better pensions if they had not done so, and the problem of pension miss-selling became a focus for policymakers. Pension liberalisation also encouraged individuals and organisations to opt-out of SERPS into defined contribution, rather than defined benefit, schemes. This allowed employers to begin transferring the risks associated with pension saving from businesses to employees and started the long decline in occupational pension scheme generosity (Bridgen and Meyer, 2009, p.603). Private pensions offered a new route to accumulate a pension, but high levels of saving inequality remained. Those on higher incomes, working in the public sector and existing workers in larger private businesses continued to enjoy access to generous occupational pension schemes. Unemployed people, the self-employed, those working for smaller companies and those with an interrupted work

history were less able to take advantage of private saving and were impacted most by reduced SERPS generosity.

Following a succession of occupational pension scheme failures, including pension fraud at Mirror Group Newspapers, the *Pensions Act (1995)* introduced greater levels of regulation and a focus on scheme solvency. Increased regulation and declining rates of return on occupational scheme investments raised the cost of past defined benefit pension promises made and accelerated the move from defined benefit to defined contribution schemes. While the generosity of pension rights accruing, and the level of employer contributions fell during the 1990s, employees accumulated welfare property rights in company schemes were honoured (Bridgen and Meyer, 2009, p.599). The *Child Support, Pensions and Social Security Act (2000)* replaced SERPS with the State Second Pension (S2P). SERPS benefits previously accrued were retained by scheme members, and future contributions were still earnings-related, but the new public pension scheme was more progressive, allowing those without income or on lower incomes to accrue more pension benefits. This further weakened the link between contributions made and accrued benefits.

While the importance of public pensions continued to decline, from the mid-1990s onwards the non-public pensioner income mix began to change. Between 1996/97 and 2011/12, the real average income of a pensioner / pensioner couple increased by 46%. While state pension income rose by 29%, income from occupational pensions (up 60%) and personal pensions (up 467%) increased more significantly. The overall share of pension income contributed by occupational pensions increased more slowly than personal pensions as the generosity and availability of defined benefit occupational plans began to plateau (Department for Work and Pensions, 2013). The share of the pensioner population receiving less than half of their income in retirement from the state continued to rise (up from 30% to 41%). Amongst those that had recently retired, this increased to 53% (Department for Work and Pensions, 2013).

Auto-enrolment, S2P abolition and pension freedoms

In 2002, the Labour government announced the creation of the Pensions Commission, a quango charged with reviewing the UK private savings regime. The commission produced three reports around which a broad political consensus emerged which has informed pension policymaking for more than a decade. While the original terms of reference, at the insistence of the Treasury, excluded the basic state pension, the commission extended their remit arguing that improving pensioner outcomes required a balanced, comprehensive approach that considered the interaction between public and private provision and enhanced all elements of the retirement savings mix. The commissioners

proposed policy changes that would increase public spending and private pension saving. These included a more generous state pension with less means testing, a phased increase in the state pension age and, drawing on behavioural economics, the introduction of automatic pension enrolment with pension contributions by employer and employee with an option for individuals (but not employers) to opt-out of the scheme.

The Conservative and Liberal Democrat parties broadly supported the proposals and promised to re-link pensions to earnings at the 2005 general election, although the victorious Labour Party did not. The link was re-established in 2011 by the Coalition government. Auto-enrolment pensions were launched in 2012 for the largest employers with phased introduction for smaller firms between 2012 and 2017. The State Second Pension (S2P) and associated national insurance contribution opt-outs were abolished in 2014 and new pensions ‘freedoms’ gave those with personal pensions a choice between pooling risk upon retirement by buying an annuity (which had previously been mandatory) and income drawdown.

Pensions policy outcomes in 2020 and beyond

Having followed “a long and circular road” (Crawford, Keynes and Tetlow, 2013, p.62) from the introduction to abolition of SERPS, the UK pension regime is now built on a universal flat-rate state pension that provides a “platform for private saving” (Berry and Stanley, 2013, p.19). Additional pillars of pension saving are offered by quasi-mandatory auto-enrolment occupational schemes and individual private pensions. While a past structure has started to reassert itself, the variety, scope and size of the UK pension sector is now larger, more sophisticated and more complicated.

The last decade has seen a convergence in levels of European pension spending. Starting from a relatively low base, the UK has increased public and private expenditure in recent years, while much of Europe has seen little change or reduced the generosity of future pension benefits. The OECD recently noted that UK private pension benefits paid in 2011 amounted to 4.6% of GDP (OECD average 1.6%) and the cost of fiscal welfare tax relief on pension contributions made was 1.5% of GDP (OECD average 0.4%). Overall UK public / private pension expenditure was 10.2% of GDP in 2011, this is above the OECD average (9.3%) and is predicted to remain so in the coming decades (OECD, 2015). Public pensions in the UK are also more sustainable (Schulze and Moran, 2006, p.49) and targeted than elsewhere in Europe. In 2011, the OECD reviewed public pension system progressivity, calculating national pension Gini coefficients and pension progressivity indexes for OECD member states. The index ranged from 100 (most progressive) to zero (neutral) and negative where public pensions were regressive. Anglophone countries tend to have more progressive, flat-rate public pension schemes

and the UK basic pension (index score 82.8) is the most progressive in Europe with little link between employment earnings history and public pension benefits. The average index score is 37, Southern European public pensions are only marginally progressive, and public pensions in Sweden are regressive (OECD, 2011). In 2015, following the introduction of the triple-lock guarantee and the new Single-tier state pension, the OECD predicted that UK public pension spending in 2040 will amount to 8.4% of GDP (See Table 6 below). This is significantly higher than the share predicted in 1997 (up 3.4%) and is closer to the now lower OECD predicted average of 11.6% (OECD, 2015).

Table 6. OECD Projected future (2040) public pension expenditure – 1997 and 2015

	OECD Projected Spend in 2040 GDP% (2015)	OECD Projected Spend in 2040 GDP% (1997)	OECD Projected Spend in 2040 Change	
Nordic Countries				
Finland	13.6	18.0	-4.4	Big reduction (>-1%)
Denmark	8.0	11.6	-3.6	Big reduction (>-1%)
Norway	11.4	11.8	-0.4	Little change (+/-1%)
Sweden	7.5	14.9	-7.4	Big reduction (>-1%)
Continental Europe				
Austria	14.7	14.9	-0.2	Little change (+/-1%)
Belgium	15.2	15.0	0.2	Little change (+/-1%)
France	13.8	14.3	-0.5	Little change (+/-1%)
Germany	12.2	18.4	-6.2	Big reduction (>-1%)
Italy	15.8	21.4	-5.6	Big reduction (>-1%)
Netherlands	8.3	12.1	-3.8	Big reduction (>-1%)
Spain	11.9	16.8	-4.9	Big reduction (>-1%)
Anglo-Saxon				
Ireland	10.0	2.9	7.1	Big increase (>1%)
United Kingdom	8.4	5.0	3.4	Big increase (>1%)
Mean	11.6	13.6		
Standard Deviation	2.9	5.1		
OECD projected public pension expenditure in 2040 as a share of GDP (Projections made in 1997 and 2015).				

Sources: OECD (1997) quoted by Myles and Pierson (2001, p.309) and OECD (2015).

N.B. While changes in predicted future GDP and demographic assumptions will impact projections for 2040, the above comparison and falling spend variance suggests that European public pension generosity is converging and that public pension regimes in the UK and Ireland are becoming relatively more generous.

At an individual level, the long-run outcome of UK pension policies has been higher relative incomes for pensioners. A recent report by the Resolution Foundation noted that;

“Pensioners have fared much better overall than working-age households ... in recent years” (Corlett, 2017, p.5).

The report asserts that UK pensioners currently enjoy higher incomes, often from multiple sources, than working-age adults. Both mean and median income levels (after housing costs) are higher for pensioners, and poorer pensioners are considerably better off than poorer working-age adults (Corlett, 2017, p.26). This trend towards greater pensioner wealth has transformed the nature and age distribution of poverty over more than five decades. In 1961, older people made up more than 30% of the poorest income decile. By 2015, fewer than 5% of the bottom decile were pensioners (Corlett, 2017, p.27). While average real incomes of those in work changed little between 2005 and 2017 (ONS, 2017), real pensioner incomes rose by 31% between 2002 and 2015. Corlett (2017, p.5) asserts that half of this rise was driven by greater income from private pensions and other investments, with the other half (split roughly equally) coming from growing earnings from paid employment and more generous public pensions and other benefits. Income growth has been strong across all pensioner income groups (Corlett, 2017, p.43). Benefits, investments, occupational pensions and employment have all contributed to the increase in income, but the relative importance of the funding types varies by income group. For poorer pensioners increasing benefit levels have been the key factor in higher income, for middle-income and wealthy pensioners occupational pensions contribute the greater share of rising income. Corlett does, however, note that while UK pension policy and labour market reforms have significantly improved the wellbeing of each generation of older people, once retired, individual pensioner income tends to grow only modestly in real terms (Corlett, 2017, p.34). There are also concerns that pensioner outcomes may not continue to improve in the future. While legal protections for accrued benefits have delayed pension retrenchment, defined benefit occupational schemes are becoming less generous and are often closed to new entrants. This suggests that the rise in relative pensioner incomes may slow or reverse in the coming decades.

Summary - policymakers have institutionalised rising pensioner incomes

Following pension changes introduced in the 1980s, many commentators argued that the reform of SERPS would cause damaging actual and systemic pension retrenchment. While relative pensioner incomes fell initially, the long-run impact of pension policies has been more positive, and pensioners now enjoy higher disposable incomes than the working-age population. While the basic state pension is underpinned by broad popular support and the triple-lock guarantee, private pension funds are also protected by legally enforceable property rights and contribution hypothecation. The recent history of UK and European public earnings-related pensions has seen public schemes, which often lack guaranteed future benefit levels, made less generous over time by policymakers. Pension privatisation

underpinned by mandatory saving and fiscal welfare has helped to protect UK savers from earnings-related pension retrenchment.

Post-reform pension policy has been relatively settled, with a political consensus around softening the link between contributions made and public pension benefits received and targeting public pension expenditure towards those on lower incomes, while earnings-related pensions are managed by the private sector. As a result, current and projected future UK public pension expenditure is relatively low (as a share of GDP) but more progressive than is the case in most developed countries, while private pension benefits paid and the cost of fiscal welfare on pension contributions made are well above the OECD average. Strong, state-guided and regulated private pension institutions have driven the positive post-reform momentum of UK pensioner income, collectively lobbying for rolling pension reforms that have increased the level of private saving allowing public provision to be increasingly targeted at those with lower incomes.

Focused funding institutions can maintain welfare spending

Reforms introduced by Conservative policymakers in the 1980s changed the institutional momentum of the UK earnings-related pension regime. In the years before the *Social Security Act (1986)*, public pension provision had become an increasingly important part of the pensions mix. The Act transformed the direction of travel for pension funding and addressed perceived failings with existing occupational and public pensions. SERPS had been in operation for eight years when the reforms were introduced and had yet to mature. While public SERPS was implemented successfully and demonstrated that mandatory earnings-related pension saving was popular, accrued benefits were relatively small and the programme was not embedded in the core welfare state. This made transition from an unfunded pay-as-you-go public scheme to private funded provision (an unplanned pension policy 'double movement' that bridged the gap between the golden and post-golden age of welfare) more likely, allowing the relevant Conservative policymakers to harness the power of popular capitalism by re-engineering pre-existing private pension arrangements to maximise personal pension take-up.

The pension regime changes introduced had significant parallels with social care reforms that were also enacted by the Thatcher administration⁵². Both programmes support the living and care needs of older people and were gradually outsourced by Conservative policymakers in the mid-1980s, for ideological and functional reasons, using financial incentives to encourage a switch to predominantly

⁵² English social care reforms introduced by Conservative policymakers are analysed in chapter five.

market provision. Both also saw a significant increase in short run public expenditure, as the reforms were introduced and embedded, followed by a long period of Conservative / New Labour consensus on the direction of policy. While social care provision generosity and the level of investment in the care home estate improved significantly after the reform, long run funding outcomes have deteriorated and are consistent with actual and systemic retrenchment. Pension policy changes had the opposite profile. Short-run outcomes were negative as breaking the link between wage growth and the basic pension at a time of rising real incomes drove up pensioner poverty. Most commentators predicted that there would also be long-run pension retrenchment, but actual outcomes have seen relative pensioner incomes rise significantly and (after housing costs) they are now higher than for those in work. Levels of income inequality are also lower amongst pensioners than for the working age population.

Social care for older people and earnings-related pensions are both positioned outside the core welfare state but have experienced very different long-run programme outcomes. Public social care is commissioned and paid for by marginal local councils that have few protections against financial austerity. The funding for earnings-related pensions comes from state-guided and regulated, quasi-mandatory saving by employees and employers supported by fiscal and regulatory welfare. Pension funds are self-funded by individual pension contributions and accrued benefits are backed by assets and legally enforceable, making it extremely hard for governments or employers to reduce accrued earnings-related pension benefits. This analysis of the development of UK pension policy has highlighted two institutional approaches that can maintain and grow the overall level of welfare programme spending. The funding of the most salient, core welfare state programmes is underpinned by high levels of social solidarity and policy taker support. Where a policy area has lower public salience or provision is more fragmented, protection can also come from a robust, well-resourced funding institution. Both of these funding poles underpin rising pensioner incomes across the UK. Neither apply to the funding of English social care.

4. Comparison of two sustainable funding reform cases

Chapter four has analysed the introduction and post-reform development of German long-term care insurance in the mid-1990s, and UK earnings-related pension reform in the late 1980s. In both cases, policymakers engineered new devolved welfare funding institutions by repurposing pre-existing, widely trusted funding organisations that were available when policymakers were looking for an alternative approach. The institutions that policymakers created have delivered sustainable, long-run funding outcomes. In the final analytical section of the chapter, we focus on the policymaker reform decision, employing Mill's method of agreement to highlight common explanatory variables⁵³ consistent with funding reform in the two comparator cases. Potential variables are grouped into four types (global, national, institutional and political calculus variables at the time of funding reform) and are discussed in turn below. The welfare reform cases are quite different, so despite only two cases being compared, many national environment variables and most of the institutional variables considered can be discounted as being required to achieve successful welfare funding reform. The common reform case variables isolated below are focused on global environment factors (such as population ageing and globalisation), situational political calculus variables that informed the reform decision itself (a problem that relevant policymakers perceive needs to be resolved, policy consensus amongst the relevant policymakers and political opportunity) and two institutional variables (a relatively underdeveloped existing funding approach and an already available alternative funding approach / institutional recombination that is more consistent with the belief systems of the relevant policymakers and popular with citizens). Chapter six takes the set of explanatory variables consistent with sustainable welfare funding reform generated here and uses Mill's method of difference and process tracing to isolate explanatory variables that are common to the successful reform cases but not present in the historically non-reforming English social care case.

⁵³ The methodology employed here is detailed and discussed in chapter two. Set A = German social care variables in the mid-1990s and Set B = UK earnings-related pension variables in the late-1980s.

Global explanatory variables

We start by comparing various global explanatory trend variables that may have made German and UK policymakers more likely to consider and implement sustainable funding reforms to welfare programmes that cater for older people. These are grouped into four trend types (social, economic, technological and demographic). The comparison in Table 7 below suggests that the global trend variables explored and analysed in the thesis (these include increasing family fragmentation, rising female labour market participation and the Baumol cost effect) are common to both the sustainable funding reform cases, although there are some differences (income inequality is somewhat greater in the UK and population ageing is more pronounced in Germany).

Table 7. Sustainable funding reform – global explanatory variables

	German Social Care mid 1990s (Set A)	UK Earnings-Related Pensions late 1980s (Set B)	Variables agreed? (A ∩ B)
Social trends	Family fragmentation and rising female labour market participation	Common variables	Yes
Economic trends	Globalisation, rising income inequality and labour market liberalisation	Common variables, although UK income inequality more pronounced	Similar
Technological trends	Automation / information revolution	Common variables	Yes
Demographic trends	Ageing population / rising life expectancy	Common variables, although UK population ageing less pronounced	Similar

National explanatory variables

When we turn to national explanatory variables, we get a very different outcome. The two cases of sustainable, de-centred welfare funding reform analysed in the chapter were achieved in heterogeneous political and welfare state regimes. Constitutional structure, political system type (Lijphart, 1984), welfare state type (Esping-Andersen, 1990) and the ‘preferred’ national welfare funding approach all differ (see Table 8 below). The one area of national similarity, if not agreement, is a post golden age of welfare ideational environment and policymakers employing strategies consistent with globalisation and ordo-liberalism / neoliberalism (Majone, 1997, p.140). This suggests that the explanation for successful welfare funding reform is not to be found within these national explanatory variables. It is possible for policymakers to enact sustainable welfare funding reform in both the German consensual conservative / corporatist and UK majoritarian liberal (with legacy social democratic features) political and welfare state environments.

Table 8. Sustainable funding reform – national explanatory variables

	German Social Care mid 1990s (Set A)	UK Earnings-Related Pensions late 1980s (Set B)	Variables agreed? (A ∩ B)
Constitutional structure	Federal	Unitary	No
Political system type (Lijphart, 1984)	Consensus	Majoritarian	No
Ideational environment	Ordoliberalism and globalism	Neoliberalism and globalism	Similar
Welfare state type (Esping-Andersen, 1990)	Conservative corporatist / Bismarckian	Liberal (with legacy social democratic features) / Beveridgean	No
National welfare funding approach (preferred)	Hypothecated social Insurance (public and private)	Pooled general taxation and fiscally incentivised private provision	No

Institutional explanatory variables

Similarly, when we compare pre-reform institutional funding and provision approaches, the two reform cases have very different characteristics. Before funding reforms were introduced, the existing funding institution, risk approach, benefit-type, programme structure and level of programme salience were all very different. Table 9 below suggests that we can discount many of the existing programme features listed below as being prerequisites for sustainable funding reform.

Two areas of institutional similarity highlighted by the analysis undertaken in this chapter are a relatively immature pre-reform funding approach, and the existence of an alternative pre-existing, de-centred funding institution more consistent with the policy preferences of relevant policymakers than the status quo. These alternative funding options were pre-existing public and private health insurance schemes in Germany, and long-established private pension companies in the UK. Before the reforms, German social care provision and funding were relatively underdeveloped (Pavolini and Ranci, 2008, p.247). A predominantly public long-term care insurance scheme was preferred by policymakers as the approach was popular, rapidly deployable, would pool social care costs and complemented existing means tested *Länder* funding. In the UK, public SERPS increased the level of (mandatory) pension saving but was still a relatively immature welfare programme in the 1980s, so the double payments required when moving from pay-as-you-go to funded pensions were relatively small and switching to private earnings-related pensions was popular and consistent with the privatisation ideology of Conservative policymakers and Beveridgean ideas that underpin the UK welfare state.

Table 9. Sustainable funding reform – institutional explanatory variables

	German Social Care mid 1990s (Set A)	UK Earnings-Related Pensions late 1980s (Set B)	Variables agreed? (A ∩ B)
Pre-reform funding institutions	Individual, family and local government	Unfunded, hypothecated national public scheme	No
Pre-reform institutional maturity	Provision and funding approach relatively underdeveloped	Immature pay-as-you-go scheme (eight years old when reformed)	Yes
Pre-reform risk approach	Non-pooled. Self-insurance with safety net	Pooled risk (annuities, defined benefit schemes and universal flat-rate state pension)	No
Programme benefit type	Benefits-in-kind and cash benefits	Cash benefits	No
Programme structure	Fragmented provision no focal funding institution	Focal funding institution	No
Programme salience	Lower	Higher	No
Existing alternative funding institution?	Yes. Health insurance (public and private)	Yes. Private personal pensions.	Yes

Political calculus variables

Finally, we turn to the situational political calculus variables around the funding reform decision. The multiple streams framework (Kingdon, 1984) suggests there are three relatively independent streams that must converge before policy reform can happen (an agreed problem, agreed policy solution and the political focus and requisite political majority required to enact and perpetuate change). When they converge a policy window opens, and change can result. When we apply multiple streams analysis (see Table 10 below), we find that the problem stream is consistent in both of our sustainable funding

reform cases. In Germany in the mid-1990s and the UK in the late 1980s, the relevant policymakers perceived that there was a funding problem that needed to be addressed⁵⁴.

Following an extended, robust debate in both cases, a sufficiently broad consensus emerged about the most appropriate policy approach amongst the relevant policymakers and the wider policy community. Agreement was driven by two policy entrepreneurs (Norbert Blüm in Germany and Norman Fowler in the UK) and guided by pre-existing funding institutions that were popular with citizens and more consistent with the belief systems of relevant policymakers than the existing approach. In both cases, the political stream was also consistent with reform. A broad cross-party consensus eventually emerged in ‘consensual’ Germany and the Conservative Party had a large parliamentary majority in the ‘majoritarian’ UK (Lijphart, 1984).

Table 10. Sustainable funding reform – political calculus explanatory variables

	German Social Care mid 1990s (Set A)	UK Earnings-Related Pensions late 1980s (Set B)	Variables agreed? (A ∩ B)
Problem stream - broad consensus amongst relevant policymakers that there is a problem?	Yes. Non-pooled means-tested benefits	Yes. Unfunded public pensions	Yes
Policy stream - broad consensus amongst relevant policymakers on how to solve the problem?	Yes. Social insurance (public and private)	Yes. Private personal pensions	Yes
Political stream - political focus on the problem and a majority in favour of reform?	Yes. Broad cross-party consensus	Yes. Large Conservative majority	Yes

⁵⁴ In Germany the perceived problems facing policymakers included the possibility of catastrophic individual care costs, an over reliance on means-tested social assistance rather than (preferred) pooled social insurance and growing budgetary pressures on regional government. In the UK, perceived problems included a belief that unfunded public earnings-related pensions were both inappropriate and unsustainable, and that existing private occupational pension schemes were not well matched to the needs of a changing labour market.

5. Achieving and perpetuating sustainable de-centred welfare funding

The two cases of sustainable, de-centred welfare funding reform analysed in this chapter demonstrate that when the relevant policymakers agree that a serious funding problem exists, and a preferred and implementable solution presents itself, reform was possible in the ‘majoritarian’ UK and ‘consensual’ Germany⁵⁵. They also show that policymakers can introduce reforms that significantly increase current and future welfare programme spending during times of financial restraint. A significant funding increase formed part of the reform package in both countries, helping to ensure that the new approach, which was better aligned with the policy objectives of the relevant policymakers than the existing institutional settlement, was successfully introduced.

In both cases, the existing funding approach was not deeply embedded in the welfare state and new funding institutions were constructed by reworking existing, widely trusted organisational structures that were in place and operating successfully. Having a pre-existing institutional structure into which reform efforts could be directed helped policymakers (and citizens) to engage with funding reform and allowed a large enough policy consensus to develop amongst the relevant policymakers⁵⁶. Both reforms introduced an additional state-guided, hybrid public and private funding pillar that complemented basic taxation funded public provision. The two institutional structures have diverged towards long-standing national institutional norms over time, although both remain successful. While mandatory German long-term care insurance has retained the public-private funding mix, the scheme has started to move away from the original defined contribution approach and the contribution rate has started to increase. Mandatory earnings-related pensions in the UK have gradually evolved into a private quasi-mandatory auto-enrolment regime that allows citizens to opt-out of saving (although few do). Unfunded, public earnings-related pensions were abolished in 2014.

⁵⁵ The profile of the ‘relevant policymakers’ required to deliver reform was however quite different. A cross party policymaker consensus delivered reform in ‘consensual’ Germany, while the Conservative Party relied on a large parliamentary majority in the ‘majoritarian’ UK.

⁵⁶ The introduction of public SERPS in 1978 (which mandated earnings-related pension saving and established a ‘market’ that could then be privatised) and the gradual privatisation of SERPS from 1986 suggests a similar policy ‘double movement’ might offer a path to sustainable social care funding in England. The implications of a two-stage implementation approach are discussed in chapter six.

An analysis of post-reform institutional development also demonstrates the protective, simplifying and beneficiary empowering benefits that can accrue to a welfare programme that is supported by a focal, devolved funding institution. In both cases, ring-fenced funding has protected against benefit retrenchment, and where benefits are paid directly to care recipients, this can help citizens to negotiate mature welfare states that can be increasingly complicated. Once a welfare funding institution exists, it also gives policymakers and those operating in the associated policy networks a focus for lobbying, provision improvements and an obvious non-taxation, state-guided, devolved mechanism to increase the level of funding over time. Where welfare funding is linked to need (defined benefit funding rather than defined contribution) a hypothecated funding institution can deliver path-dependent upward funding momentum.

Sustainably funding a marginal welfare programme

Why does English social care for older people face a persistent funding crisis?

Chapter 5. De-centred welfare without sustainable funding

The first two analytical chapters of the thesis argue that core taxation funded welfare states have become the relatively stable collections of mature, little punctuated, welfare institutions that historical institutionalism anticipates, tend to focus on existing policy takers and struggle to meet new welfare needs. To address emergent welfare gaps, policymakers have increasingly turned to devolved bespoke solutions to deliver and fund the welfare provision required. In this chapter, we chronicle the institutional development of English social care. Social care for older people is a fragmented, marginal welfare programme where demand for significant levels of formal, non-family care emerged relatively recently. This need has not been adequately addressed by the core welfare state and policymakers have not seriously engaged with funding reform. While the marketisation of care provision in the 1980s mobilised private capital and transformed care delivery, alternative sources of de-centred financing were not introduced or encouraged, and social care lacks the sustainable funding approach that policymakers enacted to support German social care and UK earnings-related pensions. When post-2008 financial austerity measures were employed by the Coalition government, English publicly commissioned social care remained reliant on funding from general and local government taxation and spending was reduced. In the pages that follow, we analyse how decades of policymaker non-engagement⁵⁷, ‘accidental’ reforms, a lack of strategic thinking, an absence of obvious alternative funding approaches and asymmetric local government austerity have left English social care fragmented and without a reliable institutional mechanism to sustainably fund care, making policymaker action on funding reform both urgent and problematic.

1. Life outside the core welfare state

Social care for older people is a marginal⁵⁸, locally managed, non-universal area of the English welfare state with a relatively narrow clientele and few sustainable mechanisms to increase funding over time. Policymaker attention tends to be relatively low, although this has increased during the current funding crisis, and the social care landscape that has evolved is highly fragmented. Despite a passing

⁵⁷ An MP with an active interest in social care argues central government already underwrites much of the national pension and health care risk and does not want to assume additional social care risk as well. The Treasury is also against requiring employers to contribute to a new social care funding levy. When the MP discussed this with the former Chancellor (George Osborne), Osborne argued that the rising employer cost of auto-enrolment pensions and the new apprenticeship levy were already a problem (Interviewee 031, 2018).

⁵⁸ The care of older people has long been a secondary objective of the UK / English welfare state (Beveridge, 1942, p.92; Means et al., 2002, pp.163-165; Gorsky, 2012, p.441) with under investment, low wage levels and staff recruitment problems persisting in the care sector for decades (Townsend, 1964, p.38; Colombo et al., p.159).

dalliance with national supplementary benefit funding for residential care in the 1980s, the local government care funding approach today is little different to the one that existed forty years ago. Formal care provision is however very different, managed by a diverse network of public and private institutions and having seen a great deal of change. In the 1980s, the Conservative government enacted reforms that outsourced most care provision. The marginal nature of the sector allowed policymakers to aggressively encourage radical, market-based change to the ways in which care was delivered. While social care was transformed and modernised in the 1980s (Gingrich, 2011, p.179), other than a brief period of generously funded private provision that followed, spending has often struggled to keep pace with demand. While the introduction of markets and private sector capital transformed the care home estate, the outsourced institutional structure of formal care reduced the already modest protections that the sector had against retrenchment in times of fiscal consolidation (Pierson, 1994, p.15). While the reforms unlocked significant levels of investment, the changes did not address the need to secure sustainable long-term public or private funding sources for social care. When the, now privately managed, care industry faced a funding shortfall in the late 1990s, provision contracted rapidly. In response, the Blair administration increased short-run local government funding and reduced the regulatory burden (Netten et al., 2005, p.334) but failed to put in place a secure system of public funding or to incentivise private insurance or saving for care. This stabilised the situation, but the opportunity to create a sustainable long-run funding framework was again not taken. Following the financial crisis of 2008 and the on-going fiscal contraction that followed it, care spending was reduced and formal, taxation funded, public care provision was intensified (Burchardt et al., 2015, pp.52-53).

Numerous commissions have proposed care funding reform, but the funding basis for formal social care remains individual, non-pooled self-insurance with means-tested public support only available when the care recipient approaches insolvency. Much of the care gap caused by the reduction in formal, publicly funded provision over the past decade has been filled by increasing levels of informal family care, mirroring a trend across much of Europe (Pavolini and Ranci, 2008, p.247). While this re-familialisation of care has been accompanied by more public support for family care in Germany, where such funding is increasingly seen as a right of social citizenship, relatively few informal carers in England enjoy funding (Beesley, 2006, p.26). This failure to pool support costs, either publicly or privately, increases the individual risk of very significant care expenditure being incurred by English citizens in old age (Barr, 2011, p.15).

Chapter structure

Three phases of public social care history are analysed in the pages that follow: residual, stigmatised workhouse provision for the poorest in society, the brief flowering of private formal residential care in the 1980s and more recently an era of cost containment, care intensification and the re-familialisation of lower intensity care. Firstly, we consider the historical development of formal social care for older people in England, analysing the rise of publicly delivered and funded formal care and the shadow cast by the deliberately bleak Victorian workhouse. Secondly, we explore the rapid changes in the public / private formal care mix that were initiated in the 1980s by the Conservative government. In ten years, the provision of residential care was transformed from mostly public to mostly private, average care home size was reduced and the last of the old workhouses were closed. While formal care provision changed significantly, the funding structure of state-commissioned care remained general taxation, and as uncapped care costs rose rapidly, access to care was restricted. Policy stabilised in the early 1990s, with a focus on cost containment and more targeted, higher intensity provision in the formal care sector. Finally, having explored policymaker disengagement and the rejection of universal social care funding by both Labour and Conservative governments, we complete the chapter by mapping a 2020 public social care regime in England that is broad in scope, incoherent, difficult to navigate and less well funded than it was a decade before.

2. The Cinderella service

English public social care for older people is today built around managed welfare markets and the separation of institutional responsibilities. The commissioning and funding of formal care are managed by local government, the standard of care provided is regulated by the Care Quality Commission and provision is mostly delivered by private operators. Three distinct functional activities have been isolated, and the management of social care contracts is now a core activity of local government. While provision has been transformed and quasi-markets are utilised widely, the general-taxation based funding regime has changed little in decades. Social care is still funded first by individual and family self-insurance with little government supported fiscal or regulatory welfare that might encourage private insurance risk pooling, although private, tax subsidised pensions do help to meet care costs. Means-tested public funding is only available when the recipient of care approaches insolvency.

Before the Thatcher administration, provision was very different with formal social care largely delivered publicly by local councils. Other than a period of reorganisation and investment that

followed the Seebohm Report (1968)⁵⁹ and was curtailed by the 1973 oil crisis, there had been insufficient capital investment for decades (Means and Smith, 1998, p.166; Means et al., 2002, p.69), there were few incentives to innovate and there was minimal, self-regulation of care standards. Oesterle and Rothgang (2010, p.379) argue that the need to care for older people was largely seen as a family risk rather than a social risk across the OECD until relatively recently and that this led to care sector marginalisation, policymaker disengagement and underfunding. When Townsend (1964, p.58) surveyed English public residential care provision in the 1960s, he found that it was, in many places, still reminiscent of the workhouse. He saw no future for residential care and argued for comprehensive de-institutionalisation. In the pages that follow we explore the historical origins of marginalised English social care provision and analyse decades of institutional de-layering of a 'bad' institution.

The long shadow of the workhouse

The residential care services that are available to older people today have evolved from the stigmatised, residual institutional care provision that was made available to paupers of all ages under the Poor Laws. Townsend (1964, pp.3-11) traced the development of formal care for older people from the workhouse to the institutions that he surveyed in the early 1960s. He describes a marginalised area of English welfare provision that lacked coherent sector-based strategies and had long been impacted by policy choices made for other more politically salient welfare areas.

The onset of the industrial revolution and the social fragmentation it engendered led to growing demand for, and a rising cost of, public poor relief (Powell and Hewitt, 2002, p.24). To address these funding problems, Parliament set up a commission to review the Poor Laws. The commission primarily focussed on working-age adults and proposed a move away from means-tested 'outdoor relief' (Blaug, 1964, p.229) towards 'indoor relief' and the strict discipline of the public assistance institution (workhouse). It was anticipated that this move from cash benefits to stigmatised, institutionalised provision for the few would reduce the cost of relief. With a focus on those who were able to work, the sick and the old were something of an afterthought. Paupers of all ages were housed in mixed institutions and the system was made deliberately unappealing to disincentivise those who might opt

⁵⁹ The Seebohm Report (1968) proposed integrated local government social services departments that combined the management of residential and home care for older people with children's services and parts of existing welfare, education, health and housing departments. Most of the measures proposed by Seebohm were enacted by the Social Security Act (1970) (Means and Smith, 1998, p.277) but the primary focus of policymakers was not social care. With a change of government in 1970, an oil crisis in 1973 and a major local government reorganization from 1974, local government care provision remained a marginal area for central government policymakers and the reforms did not institutionalise sustainable upward momentum in the level of publicly delivered social care for older people.

to move into the workhouse voluntarily. While plans were made for separate provision for older people, little progress was achieved and at the time of The Royal Commission on the Poor Laws (1909) less than 2% of the 140,000 older people in Poor Law institutions were separated. Most were housed in large mixed institutions that were described by the commission as human warehouses. The mixed nature of institutional care was, however, addressed by a variety of policy initiatives between the wars. In the 1920s, the Local Government Act (1929) officially abolished the workhouse and the management of care institutions passed to local councils. Many were re-categorised as specialist hospitals, children's homes and maternity homes. This separated the young and the sick to parallel institutions and changed the population composition of the former workhouses that catered for older people. The nature of care became more targeted as other programmes escaped.

Townsend noted that while a lack of investment, overcrowding and insufficient medical staff were endemic across all welfare institutions, the quality of institutions caring for older people was amongst the worst. Gorsky (2012, p.442) argues that the failure to engage with the issue was driven by the low priority accorded to the care of older, non-productive people by capitalist societies. This view is also present in the ideas outlined and codified by the Beveridge Report (1942, p.92), long embedded in the fabric of the English welfare state. Beveridge asserted the primacy of those who were of working age or who could work in future, arguing that;

“It is dangerous to be in any way lavish to old age, until adequate provision has been assured for all other vital needs, such as the prevention of disease and the adequate nutrition of the young”.

In 1944, The Nuffield Foundation surveyed housing conditions and institutional care for older people (Seebohm-Rowntree, 1947). The committee argued that specialist housing and smaller, modern care homes for older people should be built and that domiciliary care should be improved. While local councils had built very few smaller care homes at that time, there were a significant number in the voluntary sector, often offering specialist care for disabilities or religions. In 1947, Aneurin Bevan, Minister of Health (1945-1951), argued strongly in support of smaller residential homes where older people could live comfortably with dignity as guests rather than inmates. Following the National Assistance Act (1948) the reality was somewhat different to the policy aspiration (Townsend, 1964, p.20). Of the four hundred public assistance institutions that existed when the National Health Service was created, a quarter became centrally funded hospitals and a similar proportion residential care homes controlled by local councils. The remaining institutions combined both functions. In 1949, 40,000 residents were housed in former workhouses. By 1960, the figure was still 35,000. Despite the

plans made in 1948, a lack of public funding, a focus on alternative expenditure priorities and a rising population of older people prevented the replacement of existing provision. While local councils drew up development plans, these were limited by central government restrictions on capital expenditure (Means and Smith, 1998, p.166). The new smaller homes that opened in the 1950s and 1960s could meet rising demand but were insufficient to allow the closure of existing capacity. Townsend (1964, p.6) argues that the Poor Law was abolished to great acclaim, but no policy was introduced to replace it. Residential care remained a marginal, residual area. Wages were low, homes had staff recruitment and retention problems and less than two per cent of the retired population lived in a care home. Around two-thirds of the beds available were publicly managed, with half of these in large former workhouses that catered for the most disadvantaged and the remainder in smaller, modern local authority homes. The voluntary sector was considered an area of excellence and provision was growing rapidly while private for-profit operators were the least significant providers of care.

Institutional care was widely criticised by Townsend and others in the 1960s and 1970s in the “anti-institutional ... literature of dysfunction” (Johnson, Rolph and Smith, 2010, p.10). This powerful critique of policy outcomes reinforced public perceptions of residential care as a ‘bad’ institution of last resort. The professional view that older people should be liberated from residential care was not, however, without its critics and institutional abolition was not achieved. Replacing care homes would have required significant levels of public expenditure, specialist house building and higher quality domiciliary care. Where new, smaller homes were built they were popular and residential care bed numbers continued to rise from the 1950s until the late 1990s.

Institutional de-layering

The programmes that make up the English welfare state have organisational cultures that are an accumulation of past political decisions and ideational choices made (John, 1998, p.32) and as importantly in the social care context, funding and other policy choices not made or obfuscated. To understand how social care has evolved requires an appreciation of this developmental process. A criticism often levelled at historical institutionalism is that it emphasises continuity and can struggle to explain change. While many core welfare state programmes are secure, reinforced by path dependency and the support of existing policy takers, English social care provision has seen significant recent change that we can analyse. Punctuated equilibrium theory suggests policymakers exhibit bounded rationality, focusing on a few key policy areas. Institutions are on a stable developmental path until a crisis or opportunity brings an issue to the attention of policymakers and, where practicable, they can change the direction of travel. In this vein, Gingrich (2011, p.185) argues that the

growing population of older people from the 1970s onwards caused policymakers to focus on social care after decades of marginalisation. Arguments for long periods of path dependent, institutional stability emphasise positive feedback processes that lock-in policymakers and takers (Pierson, 2004, p.20-22). Where institutions are strong and widely perceived to be 'good', we might expect long periods of stability with occasional short exogenously generated critical junctures where policy entrepreneurs can implement change. A second historical change explanation approach focuses on institutional evolution through endogenous processes. Mahoney and Thelen (2010, p.1) suggest that the impact of continual minor changes that are internally driven is also significant. For them, institutional settlements are not universally accepted (Thelen, 2004, p.32) and institutional entrepreneurs can effect change within institutions. Lewis and Glennerster (1996, p.3) argue that bureaucrats and organisations representing care recipients initiated a transformation in this way when local funding choices made by individual officers developed into the national care reforms of the early 1980s⁶⁰. Pierson (2004, p.155) argues that the political and financial costs of replacing or converting an existing institution will have a significant impact on institutional stability, and how change is implemented if policymakers decide that it is required (see Figure 8 below). Where both costs are high, new institutional features are likely to be layered on top of existing ones⁶¹. Where internal conversion costs are low and external replacement costs are high existing institutions are likely to adjust to changing circumstances by changing internally, an outcome consistent with the institutional evolution process outlined by Mahoney and Thelen (2010). Where conversion costs are high and replacement costs are low the institution is more likely to be replaced.

⁶⁰ In the previous chapter, the two cases of sustainable welfare funding reform analysed exhibit both exogenously driven reform and, once a focal de-centred funding institution had been created, endogenously driven change.

⁶¹ Institutional layering was the reform approach adopted by policymakers in both of the sustainable welfare funding reform cases explored in the previous chapter.

Figure 8. Conversion costs, replacement costs and institutional change

		Conversion Costs (Barriers to Internal Change)	
		High	Low
Replacement Costs (Status-quo bias)	High	Stability Layering Create new institution without eliminating old one	Conversion Internal adaption of the existing institution
	Low	Elimination / Replacement Create new institution and replace the old one	Indeterminate

Source: Pierson (2004, p.156)

The transition of the English public social care sector from provision to commissioning is explored in depth later in the chapter. High internal conversion costs (closing existing obsolete care homes and building and opening new public ones is very expensive) and low public replacement costs (the private sector built new care homes without using public funds) made institutional replacement (the bottom left quadrant above) the most likely outcome. This did, indeed, happen in the 1980s when there was a desire to enhance the level and quality of provision. While institutional provision was comprehensively transformed, existing funding mechanisms remained in place. The separation of provision and funding allowed the public institution to be replaced by private provision while retaining the exterior public funding ‘wrapper’ and minimising any negative impacts of change on citizens and service users. Despite outward stability, the introduction of internal quasi-markets changed how services were managed and delivered.

This analysis by Pierson (2004, pp.153-157) helps us understand how change is likely to be structured when it arrives, but not when it is likely to happen. The multiple streams framework suggests that when the problem, policy and political ‘streams’ converge policy entrepreneurs are more likely to successfully enact change. In the 1980s, the problem and political streams were consistent with

reformed care provision and the previously blocked policy stream was unblocked by ideas, values and beliefs (Steinmo, 2008, p.130). The Conservatives came to power in 1979 with a desire to privatise where possible and to introduce market mechanisms into government and the welfare state. The political and institutional dynamics of social care allowed the outsourcing of care provision with little political cost, and the ideology of privatisation offered a new policy route to institutional replacement (that was not previously available to policymakers) at minimal, public financial cost, so provision was outsourced. In Pierson's analysis, there is also an implicit assumption that institutions are 'good', and that greater provision would be welcomed by policy takers. What is less clearly explored is how institutions evolve over time if they are a 'bad' institution and policy takers would prefer less provision. Here we define a 'bad' institution as one that delivers a service that is deemed necessary by policymakers and society but is designed to stigmatise service users and disincentivise use. The Victorian workhouse, from which English residential care provision developed, represented the "ultimate sanction" (Means et al., 2002, p.166), and was an institution of this type. In the decades before the arrival of Thatcherism and the outsourcing options that privatisation gave policymakers to mobilise private capital within the welfare state, the institutional replacement cost (public de-institutionalisation of care recipients with more sheltered housing and homecare provision) and conversion cost (building more modern care homes) of outdated public residential care institutions were both prohibitively high. Inverting the arguments made by Pierson we might, therefore, expect policymakers to favour long-run institutional de-layering in the years before 1979. As predicted, despite promised abolition, the post-war development of the workhouse is a story of institutional de-layering over time as all but older people escaped the public workhouse.

Marginal, bad and underfunded

When Townsend (1964) investigated residential care provision in the early 1960s, he found a sector that was marginalised and underfunded. Wages were low, homes had problems recruiting staff and care home facilities were often of poor quality. Costa-Font and Courbage (2011, p.5) assert that the underfunding of care for older people remains an issue today and that the continued marginalisation of English social care is far from unique. European welfare states have very different approaches to the funding and provision of social care, but they tend to give greater priority to core welfare programmes. English mixed-care institutions experienced long-run institutional de-layering. Care provision for children and working-age adults along with public hospitals all escaped the workhouse in the first half of the twentieth century. Before the rise of Thatcherism, publicly commissioned private social care provision was not a policy option that was considered and there was little policymaker

appetite to use general taxation to fund the replacement of workhouse-based social care for older people, so the transition to more modern provision was slow.

3. Reform, drift and care intensification

In *Dismantling the Welfare State*, Pierson (1994, p.2) argues that, despite the expectations of many commentators in the 1980s, there was only modest welfare state retrenchment by the Thatcher administration. His analysis did, however, assert that while popular universal programmes would not change radically in the ways in which they presented to policy takers, more marginal programmes could experience significant levels of immediate programmatic retrenchment. He also suggested that systemic retrenchment policies that reinvented institutional forms might weaken pro-welfare interest groups and other protections against retrenchment. While such measures might be costly to introduce, Pierson suggested they might make future public spending cuts more likely.

The 1980s saw increasing levels of public care funding and a major change in the provision of social care in England. The role of local authorities was transformed from the comprehensive provision of care to a commissioning and procurement role⁶² (Fowler, 1984; Ridley, 1988, pp.16-17; Means et al., 2002, p.135). This new model of public sector enabled private provision delivered significant levels of capital investment. The public sector had failed to close the old workhouses; the transition to the market achieved this within a decade. Gingrich (2011, p.179) argues that, unlike core welfare programmes like pensions and healthcare, there had been no golden age of publicly provided social care. The demand for significant levels of formal, non-family care for older people emerged relatively recently in a neoliberal environment where welfare pluralism was the dominant ideational approach (Bode, 2008, p.2).

The disengaged, accidental rise of residential care

In the late 1970s, individual social security offices began making emergency supplementary benefit payments where local councils were unable to fund private care residents (Lewis and Glennerster, 1996, p.3). Conservative policymakers, looking to reject the long-standing institutional settlement and to promote a mixed economy of social care (Wistow et al., 1992, p.25), allowed these taxation-funded payments to be made available nationwide to all who passed an income and asset-based means test (Brooks, Regan and Robinson, 2002, p.51) with the number of funded care beds limited only by the

⁶² In a speech to the Social Services Annual Conference, Norman Fowler, Secretary of State for Health and Social Services (1981-1987) argued that enabling not providing should be central to the role of local council social services departments (Fowler, 1984).

number of residents that met the financial criteria. Payments covered board, lodging and personal expense costs, were only payable to those living in private residential care homes and were not available for domiciliary services. Unsurprisingly, there was a rapid expansion in private sector residential care provision and a corresponding smaller decline in public provision. Gash and Roos (2012, p.20) argue that far from being a planned policy, a lack of local council funding in the early 1980s led various voluntary sector homes to arrange local agreements to meet unpaid resident fees. This policy 'accident' at a critical juncture was escalated by disengaged policymakers⁶³ into a nationwide policy that transformed the nature of social care provision over the course of a decade. Gingrich (2011, p.175) describes the care market that emerged with a strong bias towards private residential provision and minimal quality regulation as a producer-driven pork barrel market. This insulated care home residents from excessive costs and allowed private providers to achieve stable, guaranteed income from public finance; care home operators enjoyed significant market power as the state had underwritten care financing. She argues that this laissez-faire approach was motivated by a desire to see private providers innovate and invest in care provision. Midwinter, in a report that explores the changing role of English residential care (Lievesley et al., 2011, p.11) suggests that for a brief point in the early 1980s;

“residential care could be a social lifestyle option rather than a clinical necessity”.

An alternative explanation for the drive to significantly increase the level of private residential care provision focuses on the interface between social care and health care (Means et al., 2002, p.79). The twenty years to 2010 saw a significant reduction in the number of more expensive and non-means tested National Health Service 'back ward' geriatric beds (bed numbers fell by 60% between 1987 and 2010). While this declining trend has been repeated across all non-acute hospital areas, occupancy rates for geriatric beds are significantly higher than for other bed types, suggesting they are in the highest demand (Lievesley et al., 2011, p.15). The rise in the number of residential and nursing care beds (up from less than 300,000 in 1970 to significantly more than 500,000 in 1996, although lower today) and the rise of private provision within residential care (up from 10% of total provision in 1970 to more than 60% in 2005) meant that most free at the point of use core welfare state National Health Service geriatric hospital beds and existing means-tested publicly delivered residential care home

⁶³ Norman Fowler was responsible for health and social care throughout the period of social care reform and the rise of residential care provision. In his memoirs (Fowler, 1991, pp.183-224) he discusses NHS reforms and changes made to SERPS (analysed in the previous chapter) at length but makes no mention of social care.

places for older people were replaced by means-tested private social care provision between 1980 and 2010.

Funding insecurity and institutional drift

While the National Health Service savings generated by fewer geriatric beds were significant, the unrestricted cost of general taxation funded private provision started to grow. Gingrich (2011, p.181) notes that social security care fee payments rose from £6m in the late 1970s to £2.4bn in 1991. Council funded residential care spending for older people was flat during the 1980s, rising from £914m in 1981 to £957m in 1990 (both figures in 1991 prices) (Knapp and Wistow, 1996, p.358). Centrally funded, supplementary benefit financing for residential care went from virtually nil to more than two thirds of residential care funding in less than a decade. Local government 'home help' spending also rose from £405m to £604m over the same period (Knapp and Wistow, 1996, p.358) but remained a secondary element in the formal social care mix. The Firth Committee (1987) and the Audit Commission (1986) argued that the unplanned funding arrangements that had emerged were inefficient and "perverse" (Audit Commission, 1986, p. 28) as they incentivised more expensive private residential care provision over cheaper domiciliary care. The Committee also noted that the system caused some to be placed in residential care when they would rather have remained at home. Conservative policymakers did not want to give greater funding responsibility to local government (Ridley, 1988, p.6), but Griffiths (1988) and others (Audit Commission, 1986), eventually convinced them that something had to be done⁶⁴. Griffiths noted a lack of policymaker leadership and strategic direction, arguing that (Griffiths, 1988, p.iv);

"community care is a poor relation, everybody's distant relative but nobody's baby".

He recommended that responsibility for all social care spending (both domiciliary and residential) should revert to local government. Councils would then be able to commission the appropriate care package from a range of providers, with less of a structural (central government) bias towards more expensive residential care. Griffiths also argued a Minister for Community Care should be appointed and that central government grant funding for social care should be ring fenced. The Conservative

⁶⁴ A social care consultant argues "there was huge resistance to ... Griffiths from central government. Local government embraced it, central government ... took forever and ... Thatcher said it was the least-worst alternative. That was the Conservative view of local government. ... All the alternatives for social care funding were considered. When none ... would work they decided they would have to go with local government" (Interviewee 023, 2018).

government remained unhappy about giving councils a greater funding role⁶⁵ (Means et al., 2002, p. 4), but as the cost of taxation-funded private residential care became increasingly unsustainable (Lewis and Glennister, 1996, p.6) and, mirroring the situation today, policymakers lacked realistic alternatives that could be deployed, they eventually decided to reform care funding much as Griffiths proposed. The National Health Service and Community Care Act (1990) transferred funding and case management from centrally funded supplementary benefit back to local councils. This switch moved away from open-ended per capita funding for all older people that met the financial criteria (a defined benefit approach) to local council block grants (defined contribution) with incentives to encourage competition by outsourcing provision (Means et al., 2002, p.130) and to drive down the cost of provision. The twin goals were to restore budgetary control and to integrate residential and domiciliary care budgets, allowing those that wished to remain at home to do so. While the Social Services Select Committee and many commentators (Gingrich, 2011, p.187) agreed with Griffiths that care funding should be hypothecated, the government only agreed to do this for a transition period, preferring to blur accountability and remain less engaged by not dictating care spending priorities to local government. Despite this, care professionals broadly welcomed the proposals and local councils were keen to take on additional responsibilities. Care recipients and providers were less enthusiastic about the reforms, so existing claimants were exempted from the changes and providers were compensated. Gingrich (2011, p.17) terms this new market structure a private power market. She argues that residential care home providers still dominated the market but now sought to extract income from welfare consumers (Baldock, 2003, p.69) rather than rent seeking from public funds as had previously been the case. This was done by charging additional fees on top of public funding to residents and, with information asymmetries on service levels and a lack of regulation, by reducing quality. Gingrich argues that an outsourced social care market structure of this type is likely to emerge where fiscal constraints limit the scope of public funding.

Constrained residential care funding⁶⁶

Between 1980 and the early 1990s, the relatively generous pork barrel market structure allowed most residential care provision to be outsourced from state to private providers, with many small private

⁶⁵ Lewis and Glennister (1996, p.6) argue that Margaret Thatcher was against curtailing social security payments for residential care as this would have closed many small private homes that she wanted to support. Having considered all the alternatives, Conservative policymakers resolved that the only feasible institutional approach to managing and funding de-centred community care was through local council social services departments. This was anathema to the Prime Minister so reforms were delayed and care funding costs spiraled.

⁶⁶ A care provider manager (Interviewee 020, 2017) argues that the current social care funding crisis is significantly worse than the situation in the late 1990s. While providers struggled with increasing regulation and

operators controlling one or two care homes. Once the transition to mostly private provision had been secured, a move from direct central government care funding to non-hypothecated block grants paid to local government changed the policy direction. The funding reforms incentivised councils to tighten the eligibility criteria for residential care beds, and the approval criteria shifted from a purely financial means-test to one that included a needs assessment. The Audit Commission suggested that these assessments could be used to ration care with the criteria adopted by councils varied locally to match demand and funding in council areas. This regime of tighter eligibility criteria, caps on fee rates paid and increasing regulation by the newly introduced National Care Standards Commission drove industry consolidation as many smaller private and voluntary operators exited the sector. Exogenous factors also impacted care providers, with the introduction of the national minimum wage and European working time directive which both increased care home costs. Between 1995 and 2005, continued reductions in local authority provision and the closure of smaller private homes saw a fall in the number of available beds from 570,000 (Lievesley et al., 2011, p.4) to 470,000. After decades of growth, the rate of home closures reached 5% of homes closing each year. While noting staffing issues, Netten et al. (2005, p.331) argue compellingly that the primary cause of closures and market exit was financial. Rising staff costs, static income per resident and growing care intensity as councils tightened eligibility criteria for home entry all added to the burdens. Those closing homes stated that the major factor causing closures was the failure of local authorities to adequately fund the provision of care. Councils had significant market power and used it to reduce supplier margins. Care home closures started to become a significant political issue. The response of the Labour government to public concern about the number of homes that were closing and the pressure that the reduction in capacity was putting on hospitals was to allow the level of funding to rise and to reduce the level of regulatory pressure that homes were experiencing. Policymakers increased local government commissioned social care spending significantly from 2000 onwards, and expenditure reached £19.2bn⁶⁷ in 2010 (NHS Digital, 2018, T4). Care bed numbers started to stabilise, but the market structure had changed with larger, more professional care home operators now in place. While noting that this short-run funding policy change had successfully stabilised the number of beds, Netten et al. argue that;

“central government funding is not ring-fenced and there are many other calls on local authority resources” (Netten et al., 2005, p.335).

care costs in the past, he suggests there are now more serious labour market supply problems (particularly for nursing staff) and regulation is becoming much more onerous.

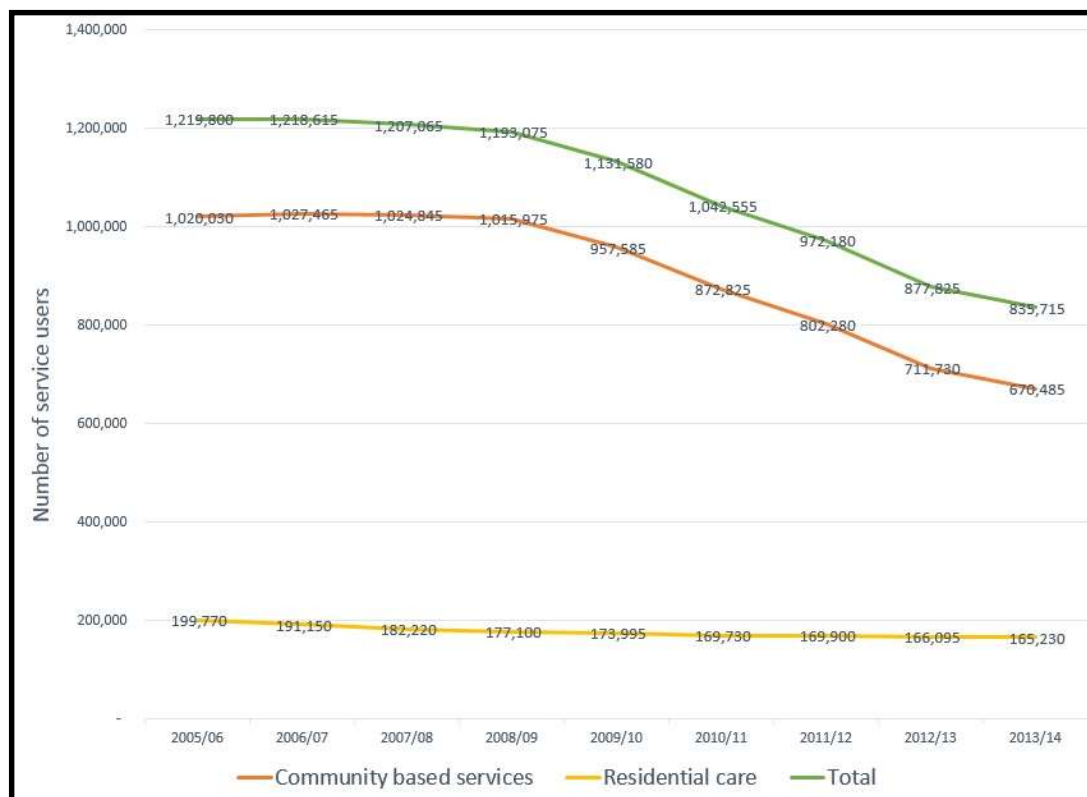
⁶⁷ The NHS Digital expenditure figures quoted are indexed to September 2018 prices.

They expressed concerns about a lack of strategic planning, the lack of risk sharing (with most risk being taken by the private care provider organisations), uncertain medium-term funding and future levels of quality regulation. This left them unconvinced that the funding mechanisms in place would deliver suitable levels of long-run investment in the sector.

Intensification and austerity

In the absence of the ring-fenced funding recommended by Netten et al., the recent history of English public social care has seen cost containment, increasing levels of care rationing, policy drift and since 2010, a focus on financial austerity. Following the 2008 financial crisis, austerity policies reduced local government care expenditure to £17.9bn in 2018 (NHS Digital, 2018, T4) (7% below the level of spending in 2010) at a time of growing demand pressures. While care marketisation initially increased investment, greater institutional complexity and the separation of commissioning and provision compounded sector marginality and, as predicted by Pierson (1994, p.16), the politically obscured, decentralised institutional arrangements gave reduced protection against cost-cutting in times of austerity. Without the sustainable, upwardly path dependent funding mechanisms enjoyed by the two comparator welfare programmes, per capita care funding fell significantly, accelerating the existing trend towards increasing care intensity with more care beds being allocated to those with dementia and other chronic conditions. As the intensification of residential care provision increased, there was also an acceleration in the relative decline of domiciliary and preventative care. While the number of publicly funded service users in residential care beds fell by 17% between 2006 and 2014, domiciliary care provision fell by 34% (see Figure 9 below) while the number of people aged over 65 increased by 10% in the same period.

Figure 9. English service users receiving social care commissioned by local authorities (2006 to 2014)



Source: Burchardt et al. (2015, pp.30-31) citing NASCIS RAP proforma P2f.

Burchardt et al. (2015, p.52) do, however, note that public expenditure on formal social care for older people has failed to keep pace with growing need since the mid-2000s, and while years of austerity have caused a significant reduction in the level of per capita public social care funding, care intensification pre-dates austerity. Across Europe, ageing societies have generated increasing demand and a growing belief that social care should be treated as a social risk rather than being a family risk. Following the financial crisis and widespread financial austerity, policy has, however, increasingly turned to the family to deliver and, in some countries, fund non-intensive social care while formal provision has seen care intensification. Oesterle and Rothgang (2010, p.382) argue that there is no optimal level of formal residential and domiciliary care and that developed societies have arrived at very different care model equilibria based on cultural norms and past institutional development⁶⁸.

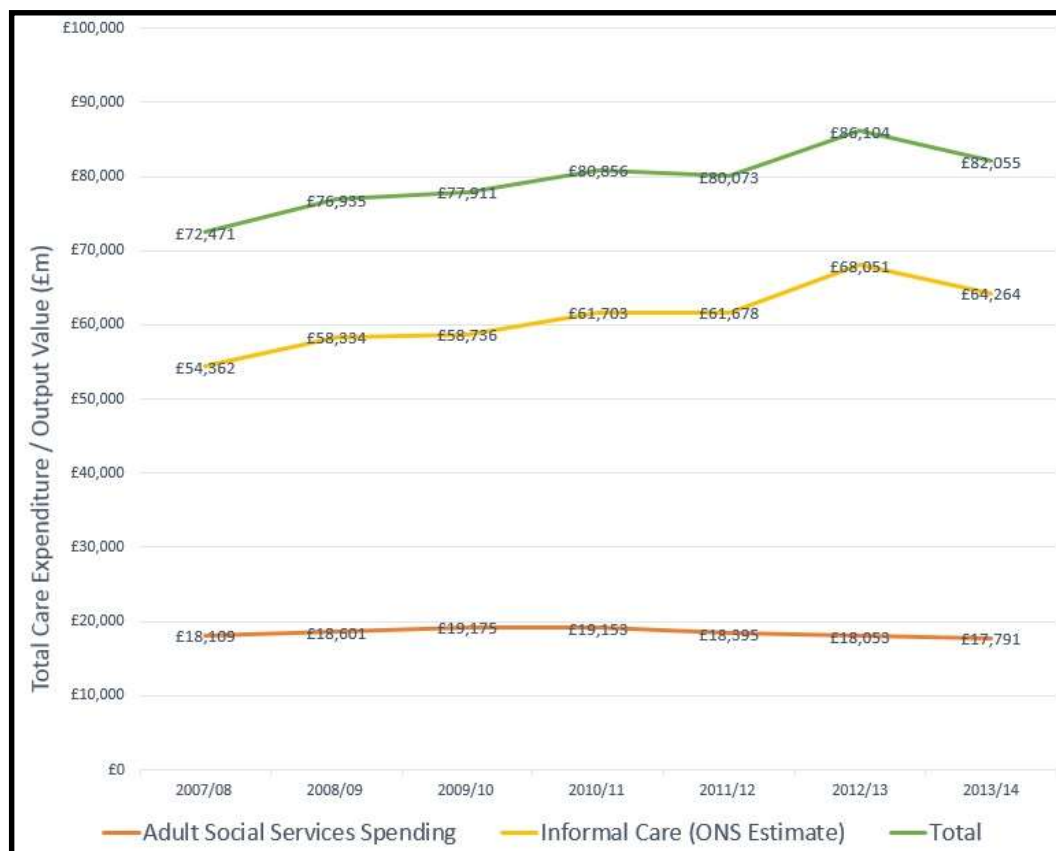
⁶⁸ Anttonen and Sipilä (1996, p.96) developed a typography for European social care regimes in the early 1990s. They note two distinct care models (a Scandinavian universal, publicly funded and delivered care model and a southern European informal family care model in Portugal, Spain, Greece and Italy) and two less distinct models; a central European subsidiarity model (Germany and Netherlands) where responsibility lies with the family, formal provision is delivered by not-for-profits and care is funded by the state and, a neoliberal, British means-tested safety-net model with a reliance on family funding and care. Timonen (2005, p.32) proposes a similar

They illustrate this point using OECD care home bed statistics. In 2006, bed density rates ranged from less than 20 beds per 1,000 people aged 65+ in Italy, to more than 80 beds in Sweden and between 40 and 60 beds across much of Europe, USA and Australia. When Pavolini and Ranci (2008, p.257) analysed social care policy reforms enacted in France, Germany, Italy, Sweden, the Netherlands and the UK, they noted two broad trends: the introduction of policies that fund, support and incentivise less intensive family care to complement existing in-kind formal provision, and the introduction of social care markets that draw on private capital and utilise competitive processes to encourage efficiency, service innovation and offer greater choice. They argue that the mix of these reforms chosen by policymakers is mediated by existing national welfare institutions and traditions. Reviewing the structure of care in the mid-1990s they placed the UK in the middle of a European social care continuum⁶⁹ that ranged from Sweden, with an in-kind service-led approach to Italy with a strong tradition of family care. Pavolini and Ranci then explored how social care has developed since the mid-1990s, arguing that other than Italy, where there has been little change, the broad trend is towards programme convergence. Existing social care models were not fit for purpose; universal healthcare provision targeted acute care rather than long-run dependency, funding was insufficient and family support under pressure with the dependency ratio and female labour market participation rates both increasing. In 1996, Sweden and the UK had the highest levels of domiciliary care of the countries reviewed. Policy reforms in the decade to 2005 saw both countries reduce the number of older people receiving homecare. The average number of hours of care received per recipient did however increase leaving overall expenditure in the UK broadly unchanged as provision became more intensive and targeted (Laing Buisson, 2016).

typography. Under the statist (social democrat) approach the state funds and provides formal care, the family / individual (liberal) approach sees family or the care recipient responsible for funding care with means-tested public provision when funds are exhausted, and in the state pays and others provide (conservative) approach formal care is funded publicly but provision is shared by family, the voluntary sector and the for-profit private sector.

⁶⁹ Pavolini and Ranci (2008, p.247) categorised countries based on the percentage of those aged over 65 receiving formal social care. In the mid-1990s, Sweden (21%) was high, the UK (14%) medium and Italy (3%) had low levels of formal provision.

Figure 10. English adult social care expenditure and informal adult care output value (2008 to 2014)



Sources: Burchardt et al. (2015, p.18) citing NASCIS PSS-EX1 and ONS (2016a).

More recently, policymakers in England have allowed the expenditure neutral intensification of care to morph into significant declines in domiciliary care coverage and expenditure (see Figure 9 above). Absolute funding reductions, increasing demand and care intensification have shifted the care mix towards two institutions that have long had primacy in the provision of English social care for older people: family and the residential care home. The growing importance of family care can be seen in Figure 10 above which compares total council spending on adult social care services with the ONS estimate of the volume and value of informal adult social care given between 2008 and 2014. While council spending rose modestly, plateaued and then fell, informal care (by value) rose by 18% in the period. The ONS valuation of informal adult care in 2014 was 260% higher than public council spending on formal adult care (ONS, 2016a). Burchardt et al. (2015, p.27) also report that between 2009 and 2013 there was a 17% increase in the number of self-funding care home residents with self-funding payments up from £4.8bn to £6bn in the period (Laing, 2017, p.14).

From systemic to actual retrenchment

Across Europe, welfare states remain focused on existing policy takers and core programmes tend to be resistant to change. Social care for older people is, however, a residual, marginal welfare area in many countries and has been more open to innovation in programme delivery and funding. This potential for adaptability driven by policy entrepreneurs and policymakers with innovative ideas and beliefs can be seen in the transformation of English residential care provision in the 1980s. The outsourcing of formal social care delivered layered provision in a partnership between public agencies, private companies, not-for-profit organisations and families. Reforming social care provision in England was, however, expensive and the transition period saw a significant increase in care spending (Gingrich, 2011, p.181). While the Conservative administration enacted significant changes in how formal social care was delivered, there was little policymaker focus on engineering sustainable public funding, encouraging risk pooling or increasing the variety of funding sources and central government opted to disengage from funding decisions. This policy approach, along with public unwillingness to engage with the need to individually fund social care, left most citizens making little or no personal provision for potential social care costs, increasing the cost pressures on publicly funded care.

In the past twenty years, English policymakers have sought to manage increasing demand for social care while controlling expenditure by 'encouraging' local government to toughen eligibility criteria (reducing the share of the population receiving public social care), focusing additional resources (using the National Health Service funding channel) on the boundary between health and social care (Means et al., 2002, p.73) and reducing the per-recipient net public cost of provision by facilitating private co-payments. The intensification and rationing of formal care (Burchardt et al., 2015, p.34) has reinforced the position of public and private residential care and the family as the two dominant institutional traditions in social care. Domiciliary care and funding to support family care have been reduced in scope and there has been a significant growth in the level of unmet need (Burchardt et al., 2015, p.44). While this approach can limit short-term increases in care spending, demographic, social and economic trends (Pickard et al., 2007, p.363; Baumol, 2012, p.4) all suggest that there is a need to better support existing informal provision and to enhance the funding of formal, non-family social care (Colombo et al., 2011, p.13).

4. Policymaker rejection of centralised funding

In the 1997 election, the Labour Party manifesto (Labour, 1997) promised to introduce a 'fair' system to fund long-term care for older people and to improve the regulation of residential and domiciliary care. Having been elected with a large parliamentary majority, Tony Blair (1997) told the Labour Party conference;

"I don't want (our children) brought up in a country where the only way pensioners can get long-term care is by selling their home."⁷⁰

A Royal Commission was established in December 1997 tasked with proposing a new funding approach, and the Sutherland report was published in March 1999. While acknowledging that there was "no obvious answer" (Brindle, 2009) to the social care funding problem, the report argued self-insurance was an inappropriate way to fund social care for older people and proposed that care risks should be pooled with free, universal nursing and personal care for all funded by general taxation and a more generous means-test for 'hotel' care costs (Jarrett, 2017, p.4).

Self-insurance, housing and family

Despite policy aspirations to the contrary, home ownership as personal social care self-insurance remains the primary funding source for private formal care in England. Using housing wealth as a savings vehicle is problematic as houses are an imperfect, illiquid instrument to pay for care (Laferrère, 2011, p.73) and the approach requires house prices to rise significantly over the course of a lifetime to generate the capital required to fund care in old age. In the absence of a robust public social care funding solution and an economic environment where house prices have historically risen, this funding approach emerged in an unplanned way. English private care insurance lacks meaningful public support, policymakers have not offered fiscal incentives or used regulatory welfare, and the market has failed to develop. Colombo et al. (2011, p.258) argue that without compulsion or public subsidy, private social care insurance will remain, at best, a niche product. Kotlikoff and Spivak (1981, p.372) suggest that informal care by the family is preferred and crowds out formal care funded by private insurance, while Oesterle and Rothgang (2010, p.378) argue the reverse, that the continuing importance of family provision within the social care sector is driven by the relatively low priority given to caring for older people across the OECD. Willetts (2010, p.8) notes that family and the welfare state

⁷⁰ In July 2019 Boris Johnson, in his first speech as Prime Minister, mirrored Tony Blair's language when he asserted "my job is to protect you or your parents or grandparents from the fear of having to sell your home to pay for the costs of care" (Campbell, 2019).

are the main institutions that manage and co-ordinate welfare funding and provision. In many areas the welfare state has become the primary welfare institution, but social care for older people is one of the few welfare realms where the family retains primacy with most social care still provided by family and friends (Colombo et al. 2011, p.43; Oesterle and Rothgang, 2010, p.384).

The case for risk pooling

Barr (2011, p.3) argues that the English self-insurance model is inefficient, and that there are strong theoretical reasons to fund social care using collective insurance. Where individuals are risk averse, he demonstrates that the widespread adoption of long-term care insurance would deliver significant social welfare gains as pooling the financial risks of old age removes uncertainty while leaving the average expected value of the cost of care unchanged. When Barr (2011, pp.4-15) compares private and public social care insurance, he notes that private actuarial insurance is based on an ability to quantify and manage risk. He argues long-term care insurance is characterised by uncertainty about the likely cost and duration of care required by older people. As these factors are very hard to quantify, pure market solutions are likely to be prohibitively expensive (Colombo et al., 2011, p.251). This suggests that public risk pooling is the most efficient and equitable approach to funding the care needs of older people. Barr's preferred funding approach is public care spending financed by ring-fenced social insurance (2011, p.12), but he argues that, despite the actuarial problems, policymakers can construct a hypothecated private insurance market that is preferable to the current English taxation funded approach which lacks funding sustainability mechanisms in times of austerity. The state can use a fiscal and regulatory welfare approach to design, promote and regulate private social care insurance products that enhance societal welfare at little or no public cost and achieve a similar funding outcome to a public social insurance scheme. The Dilnot Commission (2011) drew on this analysis and recommended a ceiling on individual lifetime residential care spending for all citizens. The policy was included in the 2015 Conservative Party manifesto (Conservative, 2015, p.65) with a limit on lifetime care fees payable. If implemented, the cap would have made a basic level of *long-term* residential care a universal benefit.

Continuing funding policy disengagement

In July 2000, the Labour Government accepted the case for universal general taxation funded nursing care but rejected the proposal for free personal care that was also made by Sutherland (1999), arguing this would be expensive (impacting resources already committed to the National Health Service), may not improve services (a point made in a note of dissent to the report) and would not help poor pensioners as they already had access to means-tested funding (Jarrett, 2017, p.5). Over the following

two decades, commission after commission has deliberated on the direction of English social care policy (Comas-Herrera et al., 2011, p.151); these include Wanless (2006), the National Care Service (2010) and Dilnot (2011). The focus of recommendations made has included appropriate levels of provision, continuity of service, and a desire to make social care provision more equitable. Dilnot (2011) proposed layered public and private funding with co-payments for hotel costs and recipient top up fees as required. A care fee cap was designed to encourage the creation of private care insurance products that could fund, the now quantifiable, capped non-public care fees. Fiscal welfare, regulatory welfare and behavioural economics could then be used to 'guide' citizens towards taking up such products. The Care Act (2014) introduced a lifetime cap on care fees of £72,000 with a policy start date of April 2016. The introduction of the Dilnot care cap was later deferred until 2020 at the request of local councils (who were charged with delivering the reform) and the monies saved allocated to support existing provision. It was dropped altogether in 2018.

Conservative and Labour policymakers have actively engaged with social care funding three times over the past thirty years. In each case they have rejected centralised care funding and opted to return (1990) / leave (2000 and 2018) the financing of publicly commissioned care spending to local government. When Conservative policymakers were considering care funding approaches in the late 1980s, they decided, despite an unwillingness to pass greater responsibilities to councils, that there was no serious alternative. In the two more recent points of potential path deviation, policymakers have considered a universal entitlement to funded personal care (2000) and long-term residential care (2018) in England (that would still be managed by local government) but rejected the approach on the grounds of cost. Continuing social care funding policy disengagement has been the preferred policymaker approach.

5. English social care in 2020

Having analysed the historical and recent development of English social care and discussed past policymaker rejections of commission proposed, publicly funded universal personal care for all, the chapter concludes by considering the nature of the social care institutions that have evolved in 2020. The English public social care regime is broad in scope but unhelpfully complicated to navigate for those needing care, significantly less well funded than it was before the financial crisis of 2008, commissioned by marginalised local government, dysfunctionally funded by cross-subsidisation from private care recipients and by redirecting funds supposedly destined for other non-statutory areas of local government, and often delivered by thousands of private care providers who are paid below the 'fair' cost of care. Despite past policy reforms that attempted to offer individual care budgets, better

integrate social care with the National Health Service and cap the lifetime cost of care, there has been little lasting success in any of these areas. English social care is a significant yet marginal, de-centred welfare programme that lacks a sustainable source of funding. A decade of continued disengagement combined with financial austerity have made provision even less coherent and harder for policymakers to steer. Central government has long struggled with the wicked institutional problems that beset social care and remains unclear about how to address these and reform public care funding.

Few policy levers for policymakers

The social care funding regime has evolved piecemeal over decades and there is no national care budget (Wenzel et al., 2018, p.16). Publicly commissioned social care (2017 – £16.8bn) is funded by local council taxation and business rates, a non-hypothecated revenue support grant (funded by general taxation, paid from central to local government and managed by the Ministry of Housing, Communities and Local Government) and payments made by care recipients. This core funding is augmented by targeted additional funding from the Department of Health via National Health Service budgets (the Better Care Fund) and an additional hypothecated adult social care support grant from central government. The Department of Work and Pensions also pay attendance allowance (2017 – £4.7bn), disability living allowance (2016/17 – £3.6bn) and carers allowance (£2.3bn) to carers and those needing care (Wenzel et al., 2018, p.16).

With a lack of central oversight and strategic direction, a regular complaint made by those who need support from the English care system is that provision and funding are complicated to understand and hard for those needing care and their families to navigate. A social care consultant argues that few people, including policymakers, really understand the system or why it has developed over time in the ways that it has. They suggest that supposed solutions introduced by policymakers often do not take account of these complexities and interrelationships, and that reforms tend to be underfunded (Interviewee 023, 2018). While the outsourcing of public care provision has contributed to growing complexity and incoherence (Innes, 2017, p. S35), the passage of time in a mature welfare state is also a contributory factor. The political cost of cancelling existing benefits can be high, so new policy initiatives are often layered on top of earlier ones without fully replacing them. As an example, Slasberg and Beresford (2018) argue that care personalisation and the introduction of personal care budgets was a major policy focus in the recent past but has now been marginalised, but not abolished. While the Care Act (2014) put personal budgets on a statutory footing, they suggest that austerity has rendered them “undeliverable” (Slasberg and Beresford, 2018).

English social care is provided by (in order of magnitude) the family, private sector and the state, and the care mix has multiple dimensions: health or social care, formal or informal care, residential or domiciliary care, public or private care and support in-cash or in-kind. Informal care is delivered to older people by millions of friends and family members, the market for social care provision in England is mature, complex and diverse with more than 20,000 provider organisations (Gash and Roos, 2012, p.21) active in the sector and care policy and commissioning is distributed between 125 single-tier, 'unitary' local councils and 27 county councils (Sandford, 2018, p.4). Following decades of deliberate central government policymaker non-engagement, a former Department of Health Civil Servant (Interviewee 026, 2018) argues that the department is remote from local authority delivered social care, there are few policy levers available to central government policymakers and the divide between local government and the department is almost as great as the public sector / private sector split. As a result, central government employs a regulatory approach when attempting to guide council activity, using legislation and statutory instruments to influence devolved organisations as there are no real financial incentives available. Local government social care commissioning and (usually) private provision are therefore governed by primary legislation, regulations, codes of best practice and guidance drafted / issued by the Department of Health and Social Care. This view is supported by a local government social care manager who agreed that "the Department of Health [and Social Care] is fairly remote from council social care activity ... local actors in the National Health Service and local council drive local policy choices" (Interviewee 027, 2018).

Systemic care funding problems

The impact of post-2010 austerity on government spending has been asymmetric. Expenditure programmes within the legacy core welfare state that enjoy broad popular support and a high public profile (such as the National Health Service) and those with protected, defined benefit status (such as the state pension) have seen public spending rise despite austerity. Local government funding does not enjoy these institutional and social solidarity protections and offers central government policymakers an opportunity to share responsibility for reductions in public expenditure. This opportunity was taken in the early years of austerity. Initially, falling funding delivered organisational change within council social care commissioning budgets and improved efficiency (Interviewee 027, 2018). Austerity was not however deployed strategically by policymakers to enhance operational performance; it was a blunt instrument used to reduce government spending. The National Audit Office reports real terms local government funding from central government fell by 49.1% and spending on council services fell by 32.6% between 2011 and 2018, with the difference between the two reductions being made up by higher local taxation, more user charges and drawing down of

reserves (National Audit Office, 2018, p.4). Within falling budgets, local government policymakers prioritised social care spending (which fell by 3% in the same period), but on-going expenditure cuts have degraded the quality and quantity of social care capacity as care providers have responded to care payments that have fallen below the 'fair' cost of care by reducing investment in human and physical capital⁷¹ and in some circumstances, exiting contracts and moving away from providing publicly commissioned care. Social care spending cuts have been focused on the areas of highest deprivation (in areas where deprivation is lowest, spending has risen) and spending has tended to switch away from prevention towards crisis management (Tinson et al., 2018, p.6). A Competition and Markets Authority report (2017, p.6) argues that the current publicly commissioned care provision model is unsustainable.

Austerity has highlighted structural problems with the local government funding channel. Many care providers now routinely charge private care recipients higher user charges, cross-subsidising their publicly funded clients (Jarrett, 2018a, p.7). On-going funding cuts have similarly forced councils to finance social care using funds allocated by central government for use in other areas. This budgetary approach is dysfunctional and is undermining the unitary / non-unitary structure of English local government. A greater proportion of unitary council spending is discretionary, which allows more discretionary funding to be used to cross-subsidise statutory areas than in non-unitary councils. Austerity has had an asymmetric impact on otherwise similar local government areas because of this funding anomaly. Between 2011 and 2013 there was a "bonfire of ringfenced funding" which gave councils greater scope to reallocate funding towards statutory (legally required by central government) areas of activity. Finance managers working in local government are understandably keen to minimise funding ring-fencing to maximise their operational flexibility (Interviewee 030, 2018).

While an on-going tightening of care eligibility criteria (care intensification) and a freeze on rises in care fees paid to provider organisations were deployed as an initial response to austerity, further use of these options is becoming increasingly unrealistic. In the 1980s and 1990s, the focus of local council social care moved from direct public provision towards public commissioning. A decade of austerity has now started to shift the focus towards the facilitation of community assets⁷². A local government

⁷¹ The ONS (2019) reports that English residential and nursing care output fell in every year from 2005 to 2018, productivity in care homes fell by 1.8% in 2018 and overall publicly funded social care productivity was lower in 2018 than in 1997.

⁷² In his Big Society Speech, David Cameron (2010) argued that community empowerment could redistribute power from "elites in Whitehall to the man and woman on the street" and that the state should "push power

social care manager argues that the funding squeeze has gone much too far, but it has encouraged better targeting of resources, more innovative approaches to the delivery of care (the council has helped create local volunteer care agencies) and greater use of technology. Much of this is out of necessity (Interviewee 027, 2018). The move from council provision to the paid commissioning of private care fragmented control in the 1980s, substituting VCSE (Voluntary, Community and Social Enterprise) groups with their own distinct agendas for private-for-profit homecare providers makes it even harder to direct provision locally (Interviewee 027, 2018) and to regulate and monitor quality from Whitehall.

The on-going public austerity agenda has driven some major care operators to start moving their focus away from publicly funded residential care, towards privately funded care and other private care approaches (Interviewee 020, 2017). These include retirement villages offering a spectrum of care provision in one location, from sheltered housing through to a nursing home. All are, however, entirely private. Large legacy operations providing publicly commissioned care will remain, but investment there is not a priority. Recent moves in the publicly commissioned care market have also seen a gradual drift away from nationwide care businesses towards more focused regional operators that enjoy strong local connections with specific commissioning councils (Interviewee 020, 2017). Publicly commissioned care is losing access to significant areas of best practice and the drift towards regional operators will increase care fragmentation still further.

National Health Service incompatibility

Publicly commissioned private social care provision and care benefit funding are not just fragmented and lacking coherence, they are also poorly integrated with the National Health Service. Shortly after the 1997 general election Frank Dobson, Secretary of State for Health (1997 – 1999), stated that he wanted to bring down the “Berlin Wall” (Dobson, 1997) that existed between health and social care. Little progress has been made. Orren and Skowronek (2004, p.322) argue that points of contact and interaction between inconsistent institutional and ideational orders operating in a common space are likely to lead to conflict. They suggest that institutional orders can emerge and congeal in very different periods of historical development, may be configured differently and be based on an incompatible ethos to other parallel institutions.

away from central government to local government and ... drive it down ...to communities, neighbourhoods and individuals”.

Table 11. English social care policy regimes

	NHS	Residential Care	Family
Care Type	Formal	Formal	Informal / Supported
Funding	Universal	Means tested	Benefits
Public Cost	High	Intermediate	Low
Provision Focus	Public	Private	Family
Dominant Ethos	Collectivist (1940s)	Neoliberal (1980s)	Familialism

The health and social care policy regimes that operate in the English social care sphere emerged and matured in very different eras. As a result, the funding approach, methods of provision and the ideational basis of the institutions themselves differ significantly. Some of these differences are documented in Table 11 above. A National Health Service Trust director argues that there are ‘political’ and cultural issues (Interviewee 022, 2018) that reduce the scope for the National Health Service to make use of existing private-for-profit social care provision to reduce pressure on hospital beds. These cultural impediments to more integrated health and social care provision are reinforced by budgetary factors. The structure of existing budgets limits the scope for National Health Service institutions to outsource provision. High fixed (mostly staff) costs and low variable costs mean that National Health Service Trusts aim to maximise bed occupancy levels to hold down the per capita cost of healthcare. There are also significant incentives within the National Health Service for Trusts to develop their own care provision using available capital budgets. Building in-house facilities rather than paying for predominantly private social care beds (which are readily available) also reduces on-going operational expenditure, which is funded by a separate revenue budget (Interviewee 022, 2018).

These blocks on the National Health Service and private-for-profit organisations working together were also noted by a senior manager working for a large care provider. He suggested that Better Care Fund monies do not get through to private care homes and presumed that they end up being spent within local government and by the National Health Service (Interviewee 020, 2017). National Health Service Trusts are, however, more willing to work collaboratively with charities, not-for-profits and other public-sector organisations, utilising a “raft of charity services offering support, day centres or helplines” (Interviewee 022, 2018). In the council area represented by an interviewed councillor (Interviewee 024, 2018) the adult social care team (offering short-term residential, domiciliary and respite care) works closely with the National Health Service and is funded by the Better Care Fund to help reduce hospital admissions and support those leaving hospital. This is one of the few areas where

council care provision is in-house and delivered by public sector staff. Similarly, discussions with a council social care commissioning manager (Interviewee 027, 2018) suggested that the council care commissioning function works reasonably well with the local National Health Service organisations although there are budget disputes in grey areas of funding ambiguity.

Wicked institutional problems

English social care policymakers are beset with wicked problems. Worsening demography, rising per capita care costs, families becoming less able to provide care and a mature welfare state that has become less relevant over time, all suggest that significantly higher (and rising) levels of spending will be needed in the coming decades just to continue delivering existing levels of care eligibility (Grant Thornton, 2018, p.8). Central government has historically left the strategic and operational management of social care to local government, while announcing often underfunded regulatory welfare policy initiatives (Interviewee 023, 2018) such as the Care Act (2014) which established a standardised national threshold for care eligibility where councils had previously assessed need independently. This hands-off policymaking approach combined with increasing levels of centrally mandated regulation has resulted in an increasingly fragmented, confused funding and policy environment with an assortment of under delivered initiatives that persist but are often not adequately funded. Devolved social care proved useful when policymakers wanted to share the blame for financial austerity, but the growing impact of spending cuts and a lack of policy levers or a clear funding channel for central government when policymakers choose to engage and want to steer, underpin growing calls for a new, centrally controlled more sustainable funding approach that would give the centre greater influence over funding policy choices and could be designed to deliver more appropriate levels of care funding⁷³.

6. Disengagement and institutional drift

When Townsend (1964) surveyed public residential care provision he found a marginal, fragmented and underfunded welfare programme. The residual nature and low salience of English social care persisted and facilitated radical Conservative reforms in the 1980s when private providers were encouraged to embrace a boom in publicly commissioned private residential care that delivered significant capital investment and transformed the national care home estate. The reforms did not however address the need to secure and structure sustainable sources of public or private social care

⁷³ The introduction of German long-term care insurance in the mid-1990s gave central government policymakers a de-centred institutional mechanism that allowed them to directly control provision and funding policy, delivering both of these objectives.

funding. They also undermined the modest institutional protections that had previously existed against reductions in provision, and increased the scope for later retrenchment (Pierson, 1994, p.146). The historical development of English social care has been as much about choices avoided as about reforms introduced. The evolution of care funding has seen central government policymaker disengagement, policy ‘accidents’ (supplementary benefit emerging as a funding approach for residential care until the cost became unsustainable), the emergence of unplanned funding approaches (housing wealth becoming a self-insurance savings vehicle), the use of underfunded arms-length regulatory welfare to drive policy outcomes and targeted funding fixes to address specific policymaker concerns rather than reforming the funding system as a whole (the Better Care Fund).

Despite radical provision reforms and more publicly funded domiciliary care in the 2000s, the historical contours of English social care remain strong. Post-2010 austerity has accelerated a reversion to informal care by the family and formal residential care. While social care suffers from systemic underfunding, older people do have means tested access to a broad care sector and there are deeply embedded, devolved public and private care institutions that commission and deliver social care. English social care is at a different developmental stage to the two reformed welfare programmes analysed in the previous chapter, UK earnings-related pensions were reformed after just eight years of operation and German non-family social care was underdeveloped before the introduction of long-term care insurance in the 1990s. English social care in 2020 is a relatively well developed, devolved welfare institution that policymakers struggle to control or reform, while lacking salience or a sustainable funding institution the sector has a large and vocal institutional community that dominates the policy stream and advocates greater care funding. Austerity was a significant institutional shock to a social care system that enjoyed real-terms funding growth of 5% per annum between 2000 and 2010 and had anticipated that funding would continue to rise as the number of older people needing care increased. Widespread calls⁷⁴ for a system of sustainable care funding reflect an institutional desire to return to the predictable funding increases seen in the recent past.

Decades of policymaker disengagement and the outsourcing of social care in the 1980s allowed a complicated, devolved welfare institution to develop. This has veto points across many institutions, is poorly integrated with the National Health Service and is financed via local government that has

⁷⁴ An analysis of 178 written policy community submissions to a House of Commons inquiry into the funding of adult social care (House of Commons, 2018) by care providers, staff organisations, individuals, councils, interest groups, professional and public bodies, demonstrates a widespread desire for a sustainable, predictable, understandable, long-term funding solution for social care that links future provision with future demand.

become an increasingly porous funding mechanism, reducing the scope for central government to target funds at social care and forcing policymakers to turn to council funding workarounds like the National Health Service Better Care Fund. With general taxation funding via local government likely to 'leak' into other areas, policymakers have also been drawn towards the introduction of a new devolved, non-taxation, sustainable funding pillar for social care, but such solutions tend to be built by re-purposing an existing approach and, as Conservative policymakers discovered in the late 1980s, an obvious alternative funding mechanism does not exist. When they try, policymakers struggle to steer social care policy and the National Health Service finds it difficult to engage with non-public welfare institutions. Numerous commissions have proposed changes to English social care policy over the past twenty years, but the basis of formal social care funding in England remains individual, non-pooled self-insurance with public funding only available when the care recipient nears insolvency. This approach does not maximise social welfare and has been liable to systemic retrenchment. While funding in core areas of the welfare state is secured through social solidarity, public expectation of programme receipts and the power of existing policy takers, these protections do not extend to social care. Persistent care underfunding is a personal and institutional crisis but has failed to become a wider crisis in the public imagination. Eight years of austerity has, however, put the need for social care funding reform firmly on to the policy agenda.

Chapter 6. Funding policy paralysis

Previous chapters have argued that the mature, general taxation funded welfare state is relatively inflexible and that English policymakers have increasingly looked to devolved, non-taxation welfare solutions to meet new welfare needs as they emerge. Change was facilitated in two comparator reform cases by the availability of ready-made, popular, preferred funding institutions better aligned with the policy objectives of the relevant policymakers than the status quo when they sought an alternative funding approach. Growing demand for formal social care in England has not been adequately addressed by the core welfare state and alternative sources of public or private funding have not been introduced or encouraged by policymakers. Past reforms outsourced, expanded and fragmented care provision but failed to deliver a sustainable funding approach and there are low expectations that radical funding reform will be proposed in a long promised green paper. The analysis undertaken here and in previous chapters suggests that any reforms that are introduced are likely to be built by reconfiguring existing institutional and market arrangements. Despite widespread policymaker disquiet about the funding channel damage wrought by austerity, there is no obvious alternative sustainable funding approach in the policy garbage can, so local government remains the only realistic way to manage and fund publicly commissioned social care. Unlike healthcare and the basic state pension, central government policymakers have chosen not to underwrite the cost of social care by introducing a universal entitlement to care in old age. In the absence of a private insurance solution, a patchwork of centrally funded benefits and local government managed and systemically underfunded care provision with targeted fixes such as the National Health Service Better Care Fund seem set to continue.

1. The elusive green paper

On 23 June 2016 the United Kingdom voted in a referendum to leave the European Union. Since that date, Brexit has been the primary focus of government and parliament while other policy issues have been marginalised (Mudge, 2019; Interviewee 029, 2018; Kerslake, 2018). This lack of policymaker engagement is not however a new situation for English social care. While a current justification for policymaker inaction might be Brexit, the social care funding crisis has been building for a decade, and policymakers have long been undecided about how to address persistent demands for greater care funding. There is widespread agreement amongst those engaged with the debate that social care needs a more sustainable funding solution (Wenzel et al., 2018, p.5) that can deliver rising public funding over time without the need for policymaker intervention, but there is little consensus on how

this can best be achieved. This desire for change is however, tempered by a belief that unilateral care funding reform has the potential to be politically damaging, and the lack of an obvious alternative approach has meant that successive governments have preferred to increase local government care spending rather than embrace radical sustainable change (Wenzel et al., 2018, p.78).

A decade of austerity

Historically, when policymakers have sought to address social care funding problems they have turned to local government. In the past forty years, English social care has moved through two policymaker driven funding cycles. The first upswing began in the 1980s to support a Conservative ideologically driven switch from predominantly public to mostly private provision. Supplementary benefit funded residential care spending was allowed to rise for a decade to incentivise market entry by private care providers. Policymakers then consolidated all care funding with local government in the early 1990s, stabilising spending growth once the reforms had been secured. The second public funding upswing came in the late 1990s, after the Blair administration had introduced the national minimum wage and increased the level of care regulation. The profitability of smaller private social care providers was badly affected and the number of residential and nursing home beds available fell from 563,100 in 1996 to 463,400 in 2004 (Laing, 2017). In response to growing public concern, central government applied more short-term funding through local government, encouraged greater homecare provision and slowed the increase in the regulatory burden. Between 2000 and 2010, local government commissioned social care spending increased by 54%, from £11.8bn to £18bn (Simpson, 2017, p.4).

Today the funding problems faced by social care are more intractable. Following the financial crisis of 2008, austerity policies have significantly reduced public social care spending (Simpson, 2017, p.4) while social, economic and demographic pressures have increased care costs and the level of need. In many cases, austerity has driven the per capita payments made by councils to care providers below the 'fair' cost of delivering care (United Kingdom Homecare Association, 2018), so any funding increases will take time to have an obvious impact as greater spending will initially lead to higher and more sustainable per capita payments to existing providers for existing care recipients. This post-austerity spending dynamic has compromised the ability of local government to improve care quality and provision levels in the short to medium term. Austerity has also highlighted wicked institutional problems with the structure of English local government, leaving parts of the country with unitary local authorities better able to cross-subsidise social care provision from other non-statutory budgets than areas which have two tier local government. Despite the institutional and structural problems associated with the local government funding channel and extensive debate about alternative funding

approaches, decades of policymaker disengagement have left many commentators unconvinced that care funding reforms that increase central government involvement are likely. Public policy on care funding remains devolved and the centre has long failed to engage, preferring to use legislation and regulatory welfare to influence the direction of local provision. In the past decade, the Coalition and Conservative governments have introduced the Better Care Fund that targets additional National Health Service funding at the interface between health and social care, a social care precept that allows local government to modestly raise council tax bills and a modest adult social care support grant funded by central government. These measures have been welcomed by councils, but they do not undo years of austerity and much of the additional spending is short term and does not constitute a sustainable commitment to higher future spending or greater central government engagement with social care.

Institutional demands for rising spending

Wittenberg et al. (2002, pp.226-248) note that social care can be funded by private self-insurance (personal pensions, savings and housing equity), private insurance, public social insurance and general taxation. English care insurance institutions are not well developed, the country lacks a functioning private social care insurance market and, unlike Germany, has no tradition of public social insurance. In the absence of public or private risk pooling, private care is mostly funded by self-insurance and public social care is systemically underfunded from general taxation. For many the cost of social care in old age is low, but a significant number of older people suffer catastrophic care costs⁷⁵. While English social care funding institutions are underdeveloped, the outsourced model of social care provision is now deeply embedded. The level of individual per capita care spending by English councils on care may be below the levels seen in the highest spending countries⁷⁶, but with 150 local councils commissioning care and 20,000 provider organisations delivering care, England has a complex, well-developed, devolved care infrastructure. Demand for greater current and future spending on publicly commissioned social care in England is significant and growing. Persistent public underfunding of these existing social care provider institutions has undermined the viability of the sector and reduced investment in human and physical capital. A sustainable long-term funding solution that delivers consistently rising funding to meet rising need and ensures 'fair' funding payments for care delivered would deliver better outcomes and is clearly preferred by those operating within the social care sector.

⁷⁵ In 2011, Dilnot (2011, p.13) estimated that half of those aged 65 can expect lifetime care costs of less than £20,000 but ten percent can expect costs of more than £100,000. The Dilnot Commission argued that pooling risk by capping lifetime care costs would reduce the likelihood of catastrophic care costs in old age.

⁷⁶ In 2014 the UK spent 1.2% of GDP on public social care, the Netherlands spent 4.3% of GDP, Sweden spent 3.2% of GDP and the OECD30 average spend was 1.4% of GDP (OECD, 2018).

The reality of recent English social care funding has been very different. Public social care funding fell by 9% between 2010 and 2015 while care need, and the per capita cost of care increased. In this environment, local councils struggle to pay a 'fair' price for care provided, care providers have started to cancel some of the more marginal existing care agreements and the wage levels paid to make care contracts economic are often too low to attract sufficient staff (United Kingdom Homecare Association, 2018). A growing gap between previously met need and current levels of provision has opened, the quality of care provided to those still eligible for care has often declined (visits are often shorter and agency staff more common) and reducing funding while regulators demand service-level continuity puts downward pressure on social care wages and upward pressure on work intensity.

While the impact of austerity on public social care provision has been damaging, the social care funding debate is marginal for many, and the care funding crisis remains predominantly institutional and personal. A comparison with the funding dynamics of the reform cases analysed in chapter four suggests that the institutional crisis in English social care is not driven by the absolute level of care spending, but by the rate of change in funding falling below historically expected norms⁷⁷ while policymakers continue to increase regulatory demands. German long-term care insurance is seen by many commentators (Frisina-Doetter and Rothgang, 2015, p.17) as an example of care funding good practice, but overall care spending in Germany at 1.1% of GDP in 2014 (OECD, 2018) was lower than the equivalent figure for the UK of 1.2% of GDP (OECD, 2018). The trend in German social care spending has however been rising while it has fallen in England. This contrast in programme perceptions ('good practice' in Germany and 'funding crisis' in England) at similar spending levels was an area of significant interest when discussed with policymakers drafting a report on English social care funding (Glendinning and Wills, 2018b).

The stalled funding debate

In the spring of 2017, in response to growing concern about the state of publicly funded social care, the Conservative government announced that a green paper on care and support for older people

⁷⁷ Four Seasons (the UK's second largest care home provider in 2017) was purchased by a private equity group in 2012 using a significant amount of debt to fund the acquisition which was "in our sweet spot: asset backed, in an essential industry and in need of fundamental change" (Hands, 2014). Rising care costs and public spending cuts since 2012 have however left the business unable to meet rent and interest payments that were financially engineered into a business model that presumed increasing public care demand and fees (Pratley, 2017). Four Seasons went into administration in April 2019. Social care business failure and high levels of borrowing are not confined to Four Seasons. Southern Cross (the largest care home operator at the time) collapsed in 2011 and the UK's four largest private care home operators (HC-One, Four Seasons, Barchester Healthcare and Care UK) have combined debts of £2.2bn which equates to £40,000 per care bed (Plimmer, 2019).

would be published before the summer. Following a snap general election in June, the government promised that the green paper would be published before the end of the year (Jarrett, 2018b, p.5). By November, the publication date had been delayed to the parliamentary recess in July 2018 (Green, 2017) and the government also announced that the introduction of the Dilnot lifetime social care spending cap, which had previously been deferred from 2016 to 2020, would be dropped altogether. In March 2018, Jeremy Hunt, Secretary of State for Health and Social Care (2012 - 2018), outlined the principles that he said would underpin the green paper, arguing that a sustainable funding model was required and that care risks should be pooled. Responsibility for the green paper was transferred from the Cabinet Office to the rebranded Department of Health and Social Care, in June 2018 and it was announced that publication would be delayed until the Autumn. In September 2018, Caroline Dinenage, Minister of State for Care at the Department of Health and Social Care, stated that the green paper would be delayed again (Quigley, 2018). Having missed another green paper publication deadline in April 2019 (Brady, 2019), Dinenage sought to dampen funding policy reform expectations asserting that the green paper would not solve all of the challenges faced by adult social care (Haynes, 2019). Having become Prime Minister in July 2019, Boris Johnson stated that the government would fix the social care crisis and that he had a clear plan (Campbell, 2019). The green paper was subsequently delayed again.

During the extended gestation period of the green paper there was initially a robust technocratic debate and a variety of evidence based funding policy proposals were produced. The Health and Local Government Select Committees jointly organised a 'Citizens Assembly' of representative citizens (Involve, 2018, p.7) that explored care funding options, received more than 180 written submissions from interested parties⁷⁸, considered oral evidence at length and published a report into the funding of adult social care in June 2018 (House of Commons, 2018). The Local Government Association also published their own policy consultation green paper in July 2018 (Local Government Association, 2018) and the King's Fund published two policy papers in February and May 2018 (Wenzel et al., 2018; Bottery, et al., 2018). While 2018 saw a flurry of social care funding papers and proposals, the continued lack of policymaker action has stalled the funding reform debate. In 2019, the Centre for Policy Studies (Green, 2019, p.17) and Institute for Public Policy Research (Quilter-Pinner and Hochlaf, 2019, p.7) both argue, as recommended by the Sutherland Report (1999) and long the case in Scotland, that personal care should be free to all at the point of need. Green goes further and argues that basic accommodation costs should also be publicly funded for all (Green, 2019, p.19). While both

⁷⁸ Written submissions to the inquiry from the social care policy community have been reviewed, aggregated (by institution type) and analysed.

reports discuss how this change might be funded (higher taxation or national insurance) neither proposes a policy route that would institutionalise sustainable future funding, choosing to focus on increased benefit generosity. More than two years after the green paper was promised, the future direction of English social care funding policy remains unclear. Independent commissions and committees of the House of Lords and Commons have explored care funding approaches in anticipation of the green paper, but concrete funding reform proposals have not emerged. When the Citizens' Assembly on Social Care (Involve, 2018, p.5) asked 47 representative citizens, a majority supported universal social care for all funded by a compulsory social insurance scheme and general taxation, but the level of engagement and understanding displayed by members of the assembly before it was convened was relatively low (Involve, 2018, p.9) and social care remains a relatively marginal concern for many. The social care funding crisis is a personal crisis for those who suffer catastrophic non-pooled care costs, and an institutional funding crisis for the organisations commissioning and providing care at below the 'fair' cost of care (Laing, 2008, p.5), but despite warnings that publicly funded social care is "on the verge of collapse" (Butler, 2018), the underfunding of English social care institutions has failed to become a wider national crisis in the public imagination (Just, 2019, p.4)⁷⁹. This has caused exasperation amongst some care organisations and commentators with calls for the government to educate and inform the public about how bad the situation has become and the need for reform (Wenzel, 2018, p.78; Fabian Society, 2018; County Councils Network, 2018; Institute and Faculty of Actuaries, 2018).

⁷⁹ Between 2012 and 2017, Just Group research found that around two thirds of those aged over 45 were interested (if not engaged) in the social care funding debate. In 2018 this dropped to 55% and the number who were not interested doubled (to 17%). The fall in interest was repeated across all age groups. The report suggests that persistent policymaker inaction may be driving public disengagement (Just, 2019, p.4).

Chapter structure

The final analytical chapter of the thesis chronicles social care funding policy inaction, arguing that the lack of an existing more appropriate alternative funding solution (as perceived by the relevant policymakers) has undermined attempts to achieve a sufficiently broad policymaker consensus on reform and the publication of a social care green paper has been repeatedly delayed. Having discussed the funding policy debate in advance of the promised green paper, in the next section we compare the set of variables consistent with sustainable funding reform generated in chapter four with their equivalents for English social care in 2019. Process tracing and Mill's method of difference are employed to isolate explanatory variables common to the two successful reform cases but not present in the non-reforming English social care case. The analysis of the drivers of social care funding policy inaction that conclude the chapter draw on this comparison and on primary research undertaken, focusing on the political and institutional obstacles to social care funding reform. This research material includes interviews with those operating in and around social care, event observation with appropriate engagement and document analysis.

2. Comparison with two successful funding reform cases

Having explored the historical development of English social care, UK earnings-related pensions and German long-term care insurance in the two previous chapters, we now employ Mill's method of difference to isolate explanatory environmental, institutional and political variables common to the two successful funding reform cases but not present in the persistently non-reforming English social care case. In chapter four we developed nineteen potential explanatory variables⁸⁰ that are employed below to interpret this lack of social care funding reform by English policymakers, and to consider any environmental or institutional changes that might make reform more likely. The variables are grouped into four types (global, national, institutional and political calculus) and are discussed in turn. UK earnings-related pensions and German long-term care insurance are successful, but very different, welfare reform cases where policymakers delivered change in heterogeneous political and welfare state regimes. The national and most of the institutional variables considered were therefore discounted as being necessary for successful welfare funding reform in chapter four. This leaves us with global, political calculus and two institutional variables as potential drivers of successful public welfare funding reform.

⁸⁰ The nineteen potential explanatory variables are listed in the appendix.

Global explanatory variables

Case comparison suggests that the global environmental variables included within the sustainable funding reform set (these are variables like population ageing, automation and greater female labour market participation) are reasonably consistent in all three of the comparator cases considered. As the variables are common to all three cases, we can discount these broad trend variables as a driver of public funding inertia within English social care and reform in the other two cases. This analysis is documented below in Table 12.

Table 12. Three case comparison – global explanatory variables

	German Social Care mid 1990s (Set A)	UK Earnings-Related Pensions late 1980s (Set B)	Variables agreed? (A ∩ B)	English Social Care 2019 (Set C)	Variables consistent? (A ∩ B) \ C
Social trends	Family fragmentation and rising female labour market participation	Common variables	Yes	Common variables	No
Economic trends	Globalisation, rising income inequality and labour market liberalisation	Common variables, although UK income inequality more pronounced	Similar	Common variables, although English / UK income inequality more pronounced	No
Technological trends	Automation / information revolution	Common variables	Yes	Common variables	No
Demographic trends	Ageing population / rising life expectancy	Common variables, although UK population ageing less pronounced	Similar	Common variables, although English / UK population ageing less pronounced	No

National explanatory variables

The two cases of successful public welfare funding reform considered occurred in countries with very different constitutional structures, political systems, welfare state types and institutional approaches. While there have been significant constitutional changes in the UK over the past thirty years, these national explanatory variables are broadly shared by UK earnings-related pensions in the late 1980s and English social care in 2019. As noted in chapter four, this analysis confirms that the drivers of welfare funding reform and non-reform in the three cases analysed are unlikely to be found within these national explanatory variables. The three cases show that sustainable public funding reform is possible in both the English / UK and German welfare states. The analysis undertaken is documented below in Table 13.

Table 13. Three case comparison – national explanatory variables

	German Social Care mid 1990s (Set A)	UK Earnings-Related Pensions late 1980s (Set B)	Variables agreed? (A ∩ B)	English Social Care 2019 (Set C)	Variables consistent? (A ∩ B) \ C
Constitutional structure	Federal	Unitary	No	Unitary	No
Political system type (Lijphart, 1984)	Consensus	Majoritarian	No	Majoritarian	No
Ideational environment	Ordoliberalism and globalism	Neoliberalism and globalism	Similar	Neoliberalism, austerity and globalism (all waning)	No
Welfare state type (Andersen, 1990)	Conservative corporatist / Bismarckian	Liberal (with legacy social democratic features) / Beveridgean	No	Liberal (with legacy social democratic features) / Beveridgean	No
National welfare funding approach (preferred)	Hypothecated social Insurance (public and private)	Pooled general taxation and fiscally incentivised private provision	No	Pooled general taxation and fiscally incentivised private provision	No

Institutional explanatory variables

The two cases where sustainable funding was introduced by policymakers also had very different pre-reform institutional characteristics. Prior to the reform, the comparators funding and risk approach, benefit-type, programme structure and level of programme salience were all very different. This suggests that five of the seven existing programme features detailed in Table 14 below were not required drivers of funding reform in the comparator cases. Two institutional variables do however agree in the two pre-reform comparator cases and are not present in the English social care case in 2019. Existing provision in the comparators was relatively underdeveloped and both had an already available and trusted alternative funding institution, consistent with the belief systems of the relevant policymakers and popular with citizens, in place before reform was contemplated.

In both cases, the sustainable funding reforms introduced were plucked from the policy garbage can and structured in ways that allowed policymakers to remain relatively disengaged. While English social care does not currently enjoy, and has not historically had, an obvious pre-existing alternative sustainable funding approach of this type, there are policy options that policymakers could re-purpose and enact to demonstrate that they are engaged with social care and doing 'something'. Older people in Scotland have enjoyed free personal care since 2002 and the legislation for a cap on catastrophic care costs has been passed but not implemented (both of these policies would increase *current* care benefit generosity, but not ensure sustainable future funding), and private auto-enrolment has emerged as a successful, popular way to fund pension saving. Auto-enrolment pensions also enjoy broad cross-party support (Thurley, 2018, p.3), having been enacted by a Labour Government and implemented by the Coalition Government.

Table 14. Three case comparison – institutional explanatory variables

	German Social Care mid 1990s (Set A)	UK Earnings-Related Pensions late 1980s (Set B)	Variables agreed? (A ∩ B)	English Social Care 2019 (Set C)	Variables consistent? (A ∩ B) \ C
Pre-reform funding institutions	Individual, family and local government	Unfunded, hypothecated national public scheme	No	Individual, family and local government	No
Pre-reform institutional maturity	Provision and funding approach relatively underdeveloped	Immature pay-as-you-go scheme (eight years old when reformed)	Yes	Provision and funding approach relatively well developed	Yes
Pre-reform risk approach	Non-pooled. Self-insurance with safety net	Pooled risk (annuities, defined benefit schemes and universal flat-rate state pension)	No	Non-pooled. Self-insurance with safety net	No
Programme benefit type	Benefits-in-kind and cash benefits	Cash benefits	No	Benefits-in-kind	No
Programme structure	Fragmented provision no focal funding institution	Focal funding institution	No	Fragmented provision no focal funding institution	No
Programme salience	Lower	Higher	No	Lower	No
Existing alternative sustainable funding institution?	Yes. Health insurance (public and private)	Yes. Private personal pensions.	Yes	No. Although there are non-sustainable funding policy options.	Yes

Political calculus variables

Finally, we turn to the situational political calculus variables that inform the funding reform / non-reform decision itself. The variables employed are suggested by the three ‘relatively independent’ streams of the multiple streams framework (Kingdon, 1984). Kingdon argues that when the relevant policymakers have an agreed problem, agreed solution and there is the requisite political focus / consensus, the streams converge, a policy window opens, and policy entrepreneurs can enact change. Applying Kingdon’s approach, we find that an agreed problem is common to all three cases. Prior to reform in the comparators and in English social care today, there was / is a perceived funding problem amongst relevant policymakers in each case. A lack of an issue that policymakers perceive to be a problem is not an explanation for English social care policy inertia (NHS Confederation, 2019, p.9). The cases also have Norbert Blüm, Norman Fowler and Damian Green (Green, 2017 and 2019) acting as policy entrepreneurs. This suggests that the reason for a current lack of social care funding policy

reform lies within the policy and political streams. In Table 15 below we see that the policy stream and political stream were consistent with reform in 1990s German social care and 1980s UK earnings-related pensions and are consistent with non-reform in English social care today. While there have long been policy stream impediments to social care funding reform, austerity and electoral considerations have altered the nature of these constraints in the past decade. Historically, both Conservative (1983 and 1987 elections) and Labour (1997, 2001 and 2005 elections) administrations enjoyed large parliamentary majorities which would have allowed reforms to be enacted, but neither government seriously considered sustainable social care funding reform (Interviewee 029, 2018). In 2019, a reasonably broad consensus across all political parties had emerged around the need for more sustainable funding to replace / support the existing system, but there was significant partisan disagreement about what policy approaches might be appropriate and how these might be achieved. The political stream in 2019 was no more consistent with delivering reform than was the case in either the 1980s or the 2000s. Unlike the (non-reforming) past, enacting and implementing sustainable public social care funding reform today is likely to require a relatively broad cross-party policymaker consensus. This looks unlikely⁸¹.

Table 15. Three case comparison – political calculus explanatory variables

	German Social Care mid 1990s (Set A)	UK Earnings-Related Pensions late 1980s (Set B)	Variables agreed? (A ∩ B)	English Social Care 2019 (Set C)	Variables consistent? (A ∩ B) \ C
Problem stream - broad consensus amongst relevant policymakers that there is a problem?	Yes. Non-pooled means-tested benefits	Yes. Unfunded public pensions	Yes	Yes. Funding crisis and catastrophic care costs	No
Policy stream - broad consensus amongst relevant policymakers on how to solve the problem?	Yes. Social insurance (public and private)	Yes. Private personal pensions	Yes	No. Significant disagreement about what should be done.	Yes
Political stream - political focus on the problem and a majority in favour of reform?	Yes. Broad cross-party consensus	Yes. Large Conservative majority	Yes	No. Minority government (until December 2019), past damage from unilateral action and focus elsewhere	Yes, and large majority during previous periods of policymaker focus did not deliver sustainable funding reform

⁸¹ A new Conservative administration was elected in December 2019 with a working parliamentary majority. While this has eased some of the political stream issues, past political damage caused by unilateral policymaker action (discussed later in the chapter) and a lack of policymaker focus remain significant problems.

Political, policy and institutional impediments to reform

Analysis of the three welfare programmes considered, using process tracing and case comparison, suggests that there are two connected variables that underpin the current lack of sustainable funding policy reform in English social care. These are the inability of cross-party policymakers to agree (and continue to agree for a sufficient period to allow any change to become embedded) that the current social care funding problems can best be addressed by specific institutional reforms, and the absence of an existing more appropriate funding solution (as perceived by the relevant policymakers) that can be deployed at relatively low political cost (both of the comparator cases suggest that a high political cost is more of an obstacle to reform than high financial cost). In the two successful reform cases, layered funding that allowed existing structures to be retained was possible and popular and the existing funding approach was not deeply embedded which made reform more likely.

Having isolated these explanatory variables, the remaining analytical sections of the chapter focus on each in turn, analysing the politics of sustainable funding reform and the blocked policy paths that English policymakers face.

3. The politics of funding non-reform

The technocratic case for social care funding reform would appear to be a strong one. While English social care has become a relatively mature welfare programme, existing care providers are systemically underfunded by the state, the care regime lacks direction and coherence, and there is a widening gap between social care need and the level of publicly funded provision. There is widespread agreement amongst policymakers across all political parties that the current system is not fit for purpose⁸² and that a more sustainable, long term funding approach is needed.

Despite a majority of MPs believing that English social care is in crisis and that ‘something’ needs to be done about public social care funding (NHS Confederation, 2019, p.9), there is a lack of agreement about what this might be, little appetite for cross party dialogue or compromise (Beckett, 2018) and few signs that significant reforms are likely to be introduced (Wenzel et al., 2018, p.5). Policymaker inaction on sustainable care funding is not, however, a new phenomenon. In the past twenty years twelve green and white papers and other public consultations have addressed social care policy (Wenzel et al., 2018, p.5), but English policymakers have consistently failed to move towards universal,

⁸² A COMRES poll of 101 MPs commissioned by Independent Age found that 89% of MPs “don’t think the current social care system is suitable for the UK’s ageing population” (Independent Age, 2017).

central government guaranteed and funded social care or to invest sufficient political capital in delivering a devolved sustainable funding approach. In the pages that follow we consider the implications of public disinterest in social care outcomes, discuss local government and care institution marginality and analyse the adverse political dynamics that stand in the way of securing sustainable social care funding reform.

A vocal (but marginal) policy community

The policy community that has developed around social care commissioning and provision, and those within the care sector who advocate sustained levels of higher funding and more investment are led by influential technocratic institutions⁸³. While National Health Service organisations and the Local Government Association have the ear of policymakers, older care recipients are often politically disengaged, much of the care workforce is paid the minimum wage with many agency workers and recent migrants, and the outsourced social care market structure gives significant market power to the state. Social care is also funded and managed by local government which is a secondary area of the UK state. The unitary structure of the English political system and Treasury limits on council spending have combined to reduce the influence and financial power of local government. While social care in England is a devolved council responsibility, tax raising powers are controlled by central government and pooled funding from the centre has been reduced significantly in recent years (down by 49.1% between 2011 and 2018 (National Audit Office, 2018, p.4)). These political and institutional structures are very different to those seen in the German long-term care insurance reform case analysed in chapter four. The German bicameral parliamentary system gives the *Länder* veto powers in the German upper house (*Bundesrat*) on all proposed legislation that has a local impact, which in practice extends to most legislation. English local authorities have no equivalent to the political power conferred by this veto mechanism. Retrenchment theory (Pierson, 1994, p.2) suggests that reductions in welfare state expenditure driven by the central government austerity agenda are likely to be focused on marginal, lower salience areas of public spending where accountability and blame can be shared. As predicted by Pierson, local government has been a major focus of the post-2010 drive for financial austerity. John McDonnell, Labour Shadow Chancellor of the Exchequer, argues that central government unwillingness to publicly fund social care on a sustainable basis is a deliberate policy and

⁸³ Health for Care, a coalition of fifteen national health organisations, has called for “a sustainable social care system in England backed by a long-term financial settlement” (NHS Confederation, 2019, p.3). In March 2019, a joint letter on adult social care issued by the Local Government Association (2019) argued local government funded “social care is at breaking point” and needs urgent investment.

that local government has been used as “a human shield for austerity”, forcing councils to absorb and share the blame for on-going funding cuts (Stewart, 2018).

Mostly private social care provider institutions and lobbying organisations also lack influence with central government policymakers. An MP with an active interest in social care funding, but no working background in social care, argues that the care sector is under represented within parliament. While there are many former National Health Service doctors and nurses who are now MPs, there are few who have worked in and understand the institutional dynamics of social care (Interviewee 031, 2018)⁸⁴. This paucity of parliamentary understanding of the complex historical issues impacting the social care sector undermines the effectiveness of policymaking (Interviewee 023, 2018), inhibits policymaker engagement and makes a strategic, longer term approach to funding policy reform less likely⁸⁵. Social care also lacks a single central government department with overall responsibility for care spending and there is no focal institution that could become a focus for central accountability and lobbying for greater care funding. This fragmentation, the devolved nature of the commissioning and policymaking function across local councils and relatively low market concentration⁸⁶ all dilute the influence of thousands of independent organisations and companies operating within the care sector.

Partisan politics and a fog of incomprehension

Unlike the two comparator cases analysed in chapter four, there is little agreement amongst the relevant English policymakers about the scope and focus of sustainable funding reform (NHS Confederation, 2019, p.16). While a residual, third way desire to work on a cross-party basis remains amongst some MPs (House of Commons, 2018, p.53), for many it does not (Beckett, 2018) and an increasingly partisan political environment has impeded funding reform attempts (Hill, 2019). In the past decade, both of the major political parties have successfully weaponised unilateral funding reform proposals to cause their opponents political damage. When the Labour Party proposed a new 10% estate levy on death to fund their National Care Service proposals in 2010, this was characterised as a death tax by the Conservative Party and was dropped as a proposal during the general election campaign (Watt, 2010). Similarly, when the Conservative Party attempted to address the problem of

⁸⁴ In his memoirs, Norman Fowler, Secretary of State for Social Services (1981 to 1987) writes at length about NHS reform and the pension funding reforms analysed in chapter four. The pension reforms drew on his personal and family experience with the existing pension system (Fowler, 1991, p.203). He makes no mention of his social care reforms.

⁸⁵ A social care consultant argues social care is “an incredibly complex system ... politicians ... with [little] understanding pull the wrong levers ... because there is a failure to understand how it all works ... there are no clear solutions and no quick fixes” (Interviewee 023, 2018).

⁸⁶ The twenty-five largest residential care homes businesses manage 31% of all care beds. The remainder of the market is dominated by providers operating three care homes or less (Jarrett, 2018a, p.2).

catastrophic care costs in the 2017 election campaign, this was characterised as a dementia tax by the Labour Party and also proved to be deeply unpopular with the electorate. A social care consultant argues there is a “fog of incomprehension” (Interviewee 029, 2018) that protects policymakers within the social care policy arena. Most citizens are not particularly engaged with social care, many feel they have “paid their stamps, so their care is paid for” (Interviewee 031, 2018), assume the National Health Service provides, and do not realise that they may have to use their house and children’s inheritance to pay for social care in old age. This lack of engagement and understanding, and the hope that family will take on a caring role, have also contributed to the failure of the English private social care insurance market (House of Lords, 2013, p.36). Polling evidence in 2017 confirmed that most citizens (63%) assumed that social care was provided by the National Health Service and 47% believed that it was free at the point of use (IPSOS MORI, 2017). When policymakers make the funding reality clear by announcing policy initiatives that seek to improve the current situation the political messenger tends to get blamed (Interviewee 029, 2018).

This wicked policymaking dynamic reinforces a longstanding unwillingness amongst central government policymakers to engage with social care policy and is deeply problematic for the prospect of public social care funding reform. The ways in which English social care provision is funded require policymaker attention and reform is overdue, but Lent (2017) similarly argues that a “veil of ignorance” protects policymakers from public concern about care institution underfunding. When policymakers lift the veil by suggesting a new funding approach, this causes concern to previously unaware citizens (Bottery et al., 2018, p.30), and the party proposing change is punished politically. Lent suggests this marginality with high reform salience could make social care funding an untouchable “third rail in politics, killing anyone who touches it” (Lent, 2017). His analysis suggests that a reasonably broad political consensus will be required to achieve public funding reform (Interviewee 031, 2018) following the significant political damage that has been suffered when policymakers have acted unilaterally. More recent polling evidence does suggest that the extended social care debate has increased public awareness of the lack of public social care funding (Just, 2019, p.14) with far fewer citizens now believing that social care in England is free at the point of use. The research however also notes that public interest in social care reform is starting to wane and that many citizens have still not engaged with how the funding system operates. When asked, a significant minority (42%) believed that the Dilnot funding cap (which was dropped by the Conservative government in 2017) had been implemented.

A government focused elsewhere

Historical process tracing and interviews with social care commentators suggest that the political environment was more consistent with radical public funding reform in the 1980s and late 1990s than was the case in 2019. While previous Conservative and Labour governments with large parliamentary majorities were better placed to enact significant changes, neither government did so, and social care funding concerns were addressed by greater short-term expenditure rather than sustainable funding reform by both administrations. Previous periods of underfunding were not as deeply entrenched (Interviewee 020, 2017) as the current systemic funding crisis wrought by years of local government austerity, and serious consideration of reforms designed to deliver sustainable long run funding was not a policymaker focus (Interviewee 029, 2018). A continuation of the existing general and local government taxation funding model was presumed by policymakers in both political parties.

Following the 2017 general election, a minority Conservative government with 317 seats out of a total of 650 was elected, ruling with the support of the Democratic Unionist Party with 8 seats⁸⁷. Without a parliamentary majority, the Conservative government was unable to unilaterally enact funding reforms and, having seen the political damage suffered by parties that have unilaterally proposed 'death' or 'dementia' taxes to fund social care in the recent past, was wary of doing so (Interviewee 031, 2018). With active and persistent policymaker engagement and a reasonably broad political consensus (which both look increasingly unlikely) required to deliver and embed reform, the likelihood of a new sustainable funding mechanism being introduced is low. In the past, the marginality of social care has often meant that "within cabinet there would usually be more pressing issues that needed to be raised than social care ... [so] social care would not tend to be considered" (Interviewee 026, 2018). For the past three years this dynamic has increased significantly as Brexit has taken up an increasing amount of "political headspace" (Interviewee 029, 2018), with Bob Kerslake, former Head of the Civil Service, arguing that negotiating an exit from the European Union takes up most "thinking time at the top of government" (Kerslake, 2018), while important policy issues, such as social care reform, are marginalised. Mudge (2019), in a discussion with Emily Andrews of the Institute for Government, similarly argues that Brexit has gridlocked domestic politics leaving public services neglected and no room for a national conversation on how social care should be funded.

⁸⁷ Following the removal of Theresa May and installation of Boris Johnson as Prime Minister in July 2019, 21 Conservative MPs rebelled over Brexit policy and lost the Conservative party whip. This, along with other defections, reduced the number of Conservative MPs to 288. The decline was reversed in the December 2019 general election after which the Conservative Party had 365 MPs (a parliamentary majority of 80).

Policyholders disagree and are wary of unilateral reform

A majority of policymakers across all political parties agree that local government commissioned public social care is failing and needs reform, but partisan policymakers are wary of compromise and without an obvious alternative funding approach (like the one that allowed a cross-party reform consensus to coalesce around German long-term care insurance), fundamentally disagree about how sustainable care funding can best be achieved. The Conservative government, with a minority of MPs in parliament until the December 2019 general election, failed to build a large enough consensus around any funding reform approach and two failed and deeply unpopular policy proposals in the recent past have demonstrated that unilateral social care funding reform can cause significant political damage to any party that proposes change. Social care recipients and the (mostly private) organisations that provide care are politically marginal, local government is a non-core area of the welfare state that has been useful when Conservative / Liberal Democrat policymakers want to share the blame for public austerity and few members of parliament have worked in or engaged with the care sector. The political stream does not augur well for radical public social care funding reform.

4. What's in the policy garbage can?

The political obstacles to the introduction of a sustainable social care funding approach documented above are reinforced by significant impediments to reform within the policy stream. English social care is a marginal welfare programme that has suffered a decade of systemic underfunding, leaving many engaged commentators and policymakers convinced that public social care needs significantly more funding today and mechanisms to ensure rising funding in the future. After more than a century of central government disengagement and the outsourcing of local government provision in the 1980s, English social care networks are highly devolved, complex and mature with most care policymaking, provision and regulation managed at the local level. Central government attempts to use legislation, regulation and funding to guide care outcomes have had limited success (Interviewee 026, 2018) and policy reform in such a heterogeneous policy area is highly complicated. After numerous commissions, reports and debates, English policymakers have spent almost three years intermittently consulting on a variety of funding approaches. The reform options considered draw upon sustainable social care funding institutions that have been introduced in other countries, existing English welfare funding approaches such as the general taxation funded, free at the point of use National Health Service and devolved, non-taxation funding approaches that also draw on pre-existing arrangements.

In the final analytical section of the chapter, we explore the collection of sustainable and non-sustainable funding institutions and approaches that policymakers have found in the policy garbage can when they have looked. While there is a broad consensus that a problem exists, achieving funding reform will require policymakers to agree on a solution that they are willing to deliver politically and is functionally implementable. All of the alternatives being considered, including the existing local government funding approach, have political and functional defects, and there is little sign of cross-party agreement on the most appropriate way to progress⁸⁸.

Damaged local government funding

All of the funding reforms that are being considered by policymakers have significant drawbacks and all but hypothecated social insurance fail to address the need for more sustainable future funding. Despite being compromised by years of austerity, the paucity of alternatives makes a continuation of the existing local government funding approach a strong candidate for the most likely future funding approach. Local government care funding is widely perceived to be failing by policymakers and, when prompted, the public. Austerity has caused significant damage to the council funding channel and policymakers are actively looking for an alternative solution. When faced with care funding problems in the past, policymakers have however consistently chosen to retain or increase the finance and commissioning role of local government. The Labour government did so in the 2000s, and Margaret Thatcher also conceded in the late 1980s (Lewis and Glennerster, 1996, p.6), despite serious reservations about an increased role for councils, that they were the least-worst way to manage and fund public social care in England. Central government policymakers have also consistently preferred not to underwrite the full cost of social care from general taxation (Interviewee 031, 2018).

A relatively modest increase in care funding using the existing institutional channels would allow the centre to remain disengaged and is easy to implement, but the fragmentation and incoherence of social care provision and funding, lack of long run funding sustainability and absence of a focal funding institution would all remain. This approach gives few protections against future retrenchment and recent austerity has also damaged the ability of local government to respond quickly if and when care funding is increased. Flat social care spending in the face of increased demand and costs has impacted care quality, put downward pressure on the wages of care staff, reduced the current capacity of local

⁸⁸ A COMRES poll of MPs commissioned by the NHS Confederation in June 2019 found that a majority across all parties agreed that there is a social care funding crisis. There was, however, a significant cross-party difference of opinion on the most appropriate policy response. While 40% of Labour MPs advocated free, universal, general taxation funded social care, only 4% of Conservative MPs agreed. Conservatives MPs were much more receptive to auto-enrolment care insurance (30% in favour) than Labour MPs (8% in favour) (Dickson, 2019).

government and private providers and limited the scope for higher levels of provision in the future. Years of suppressed local government expenditure intended for other council areas that has been used to cross-subsidise social care spending⁸⁹ will also absorb a significant part of any additional funding as it is applied. As a result, increased funding for social care using the existing local government channel will take longer to deliver results than was the case in the past. In a reversal of the blame sharing benefits of focusing the costs of austerity on councils (Pierson, 1994, p.17), when care outcomes eventually start to improve, credit for addressing the problem will be shared by central and local government. If general taxation must rise to fund higher social care spending, policymakers are likely to want positive outcomes and to be credited with those improving outcomes. Passing general taxation funding to local government will take time to deliver results and risks credit obfuscation. This suggests that some kind of central government initiative that is widely credited by the public as addressing care underfunding may be more likely to be considered today than in the past.

Flawed alternative funding approaches

Having considered problems associated with increased spending using the existing care funding channel, we turn to a discussion of four alternative social care funding approaches that were evaluated by the King's Fund (Wenzel et al., 2018 and Bottery et al., 2018). These are the Conservative 2017 manifesto proposals (a 'cap and floor' approach intended to protect citizens from catastrophic care costs), the integration of health and social care, Sutherland's (1999) free personal social care and a hypothecated social care tax. The King's Fund argue that all of the options are also problematic.

The 'cap and floor' care funding approach proposed by the Conservative Party at the 2017 general election was widely characterised as a dementia tax (Asthana and Elgot, 2017). The Conservatives proposed raising the 'floor' on the means-tested asset threshold below which care costs would be publicly funded. While there was no initial mention of a limit to lifetime self-funded care costs (the Dilnot care cap that had been dropped by the government in November 2017) this was later added. This approach would make the current confusing care funding system even more complicated (Wenzel et al., 2018, p.49), is almost as expensive as the much simpler to understand and more popular free

⁸⁹ In 2010, social care spending made up 34% of council spending. By 2018 the figure had risen to 41% of council spending (Green, 2019, p.10). This excludes ring-fenced education spending which is directly funded by central government.

universal social care approach⁹⁰ (Bottery et al., 2018, p.3), does not address the need for sustainable future funding and was deeply unpopular with the electorate.

The integration of health and social care is a policy aspiration (Quilter-Pinner and Hochlaf, 2019, p.16) that has been a work-in-progress for decades. Integration with the National Health Service is not a funding solution but would be easy to explain, popular with the public and, if merged, social care would enjoy the potential funding benefit of being part of the significantly better funded National Health Service. In June 2018, the government promised the National Health Service a funding settlement that would increase real public spending on health by 3.4% per annum (£20.5bn) over the following five years (Department of Health and Social Care, 2018). The National Health Service is, however, focused on acute care and those working in social care are wary of the medicalisation of care provision. There is a real fear that social care would be marginalised if local government and National Health Service budgets and management functions were merged (Interviewee 027, 2018). Health and social care have been separated since the 1940s. When discussing social care funding, two commentators (Interviewee 023, 2018; Interviewee 029, 2018) focused on this long-standing institutional divergence that separates health (which is free at the point of use) and social care (which is mostly means tested). A manager working for a large care provider (Interviewee 020, 2017) also argues that Better Care Fund monies don't filter through to private providers and merging social care with the National Health Service might involve public care provision losing access to private sector care competencies⁹¹. Residual care funding and the separation of social and health care are deeply ingrained in England. Integration would require a very significant level of institutional change.

Similarly, free at the point of use personal care is a change in the generosity of public care benefits rather than a sustainable funding solution that will deliver rising funding in the future. If the policy also involved the creation of a national focal care institution and greater on-going central government engagement and accountability (Involve, 2018, p.11) this could improve long-term funding outcomes. Making health and social care both free at the point of use might also help the National Health Service and social care work more closely together (Quilter-Pinner and Hochlaf, 2019, p.16) and is much easier

⁹⁰ Bottery et al. (2018, p.3) model the projected cost in 2021 of various future care funding models. Assuming a cap on lifetime social care costs of £75,000 and an asset 'floor' of £100,000 the additional cost of the 'cap and floor' model is £4bn. They note that the cost is contingent on the level at which the cap and floor are set. The additional cost of free personal care for all would be £6bn per annum.

⁹¹ A social care consultant suggests the NHS is not good at working with smaller private providers or the third sector, arguing "it's about scope and scale ... while [social care has] big providers, there are still an awful lot of small and medium sized providers who are providing specialist care because they have developed the expertise over time. That sort of scale of provider is unheard of in the NHS ... if you merged NHS and social care budgets [they] would be squeezed out completely" (Interviewee 023, 2018).

to implement than full integration. The concept of a 'National Care Service' is also well understood and likely to be well received by the public (Involve, 2018, p.11) and amongst Labour MPs (Dickson, 2019). The King's Fund (Wenzel et al., 2018 and Bottery et al., 2018, p.42) also argue that this approach is only a little more expensive than the much more complicated cap and floor approach. While the 2017 Labour Party Manifesto (Labour Party, 2017, p.71) proposed the introduction of a National Care Service, promising to significantly increase funding, adopt the Unison Ethical Care Charter (Unison, 2017) nationwide and ensure that all carers are paid the higher living wage rather than the minimum wage, it did not advocate free at the point of use personal care for all. The manifesto echoed the Conservative proposal to raise the asset threshold floor on personal contributions to care costs and suggested the party would consider a wealth tax, employer care contribution or a care levy and seek to build a funding consensus as "providing dignity and care in old age should transcend party politics and campaign slogans" (Labour Party, 2017, p.72). Neither the Labour Party nor the Conservative Party advocated free personal social care at the 2017 general election, although this position is evolving (Butler, 2019)⁹². Problems with this proposal are that it would not institutionalise funding sustainability nor be targeted at those in greatest financial need, benefiting older people at all income levels who would not have qualified for means tested care. The policy approach would also not see social care become part of the better funded National Health Service.

The final funding reform approach being considered by policymakers is ring-fenced taxation (House of Commons, 2018, p.20). While the Citizens' Assembly (Involve, 2018, p.16) suggested that the public would welcome greater linkage between taxes paid and benefits received, there are major institutional problems with employing public social insurance to fund care. A significant block on this sustainable funding approach is a deep reluctance within the English public sector to hypothecate funding and a long-standing tradition of pooled taxation (Hills, 2004, p. 352). There are very few examples of successful ring-fenced taxation in England / the UK (the SERPS comparator case in chapter four documents the dismantling and eventual abolition of hypothecated public earnings-related pensions). All UK central government revenues bar National Insurance are pooled in the Consolidated Fund (2017 receipts – £556bn) which was founded in 1787 as "one fund into which shall flow every stream of public revenue and from which shall come the supply for every service" (HM Treasury, 2017). Revenues raised via general taxation plus deficit funding from the National Loans Fund are then

⁹² In September 2019, John McDonnell, Shadow Chancellor, announced that, if elected, the Labour Party would inject an additional £8bn into local government over the next few years to fund free universal personal care for all older people, increase care wages, enhance human capital and (over time) bring social care provision back into public ownership. Labour would also introduce an individual lifetime cap on residential care 'hotel costs' payable and would fund all of these benefit enhancements via general taxation (Butler, 2019).

used to pay for all central government funded welfare spending other than contributory benefits. National insurance contributions received are nominally paid into a separate National Insurance Fund (2017 receipts £98bn / payments - £100bn of which the state pension accounts for £92bn). While the accounting for contributory and non-contributory welfare benefits is distinct, in practice the Treasury consolidates all funds received into the Whole of Government Accounts and does not practice funding hypothecation. Local government also has tax raising powers (2016 receipts - £59bn), but these are subject to central government control and local government welfare spending is jointly funded by the Consolidated Fund and local government taxation. Introducing a ring fenced funding solution for social care in isolation that did not include free at the point of use care could also “exacerbate the lack of alignment between ... health and social care” (Wenzel et al., 2018, p.71) making integration, a key policymaker objective, more difficult. Critics have also argued that strict funding hypothecation would mean funding would rise and fall with economic activity and may not necessarily be aligned with increasing demand (Wenzel et al., 2018, p.69).

A blocked policy stream and policymaker procrastination

There are three broad sustainable public funding approaches that English policymakers might adopt. These are (in order of generosity) a defined benefit promise to raise spending for every care recipient every year⁹³, a defined contribution promise to increase real spending over time (or to link overall spending to GDP)⁹⁴ and the introduction of ring-fenced public social care insurance⁹⁵. None of these are likely to be adopted for English social care. The first two guarantees exist elsewhere within the UK public sector but have not been seriously considered in the social care debate, and the third is problematic for those advocating greater integration of social care with the National Health Service and unlikely to be welcomed by the Treasury.

Despite widespread policymaker agreement that greater funding sustainability is needed, a funding policy garbage can without appealing options, little cross-party goodwill, few signs of an emerging

⁹³ The UK state pension triple lock guarantee is a defined benefit promise. Simon Stevens, Chief Executive of NHS England, has argued that the triple lock should be extended to guarantee income, housing and care for older people. Lord Willetts, Chair of the Resolution Foundation, similarly suggested that the automatic uprating of pensions should be extended to include a commitment to fund in full the rising costs of social care (House of Lords, 2017, p.58).

⁹⁴ UK government commitments to keep defence spending above the NATO 2% of GDP guideline and overseas development aid above the UN 0.7% target are defined contribution promises that ensure rising programme funding when the economy is growing but do not link spending to need. Linking funding to GDP in this way has been suggested for social care in isolation (Later Life Ambitions, 2018) and for combined public health and social care spending (Chartered Institute of Public Finance and Accountancy, 2018).

⁹⁵ Mandatory social long-term care insurance operates in Germany and is analysed in chapter four. Hypothecated taxation has not been widely adopted in the UK.

policy consensus, a government that is focused elsewhere and a keen awareness amongst policymakers of the political damage caused by unilateral social care funding proposals in the recent past all suggest that publicly funded social care is unlikely to be radically reformed. Bottery et al. (2018, p.41) agree, arguing that policymakers have made little progress in the past two decades, still face the problems that divided and undermined the work of the Sutherland Commission (1999) and have yet to agree on the issues that they want to address. Reintroducing the Dilnot cap on personal care spending would allow policymakers to address catastrophic care costs, Sutherland's free universal personal care would deliver greater equity, reduce system complexity and help with National Health Service integration, and more funding via local government will eventually improve care availability and access. There is little political consensus on which of these problems is the priority.

5. More generous care benefits without sustainable funding

When English social care policymakers look in the policy garbage can, history has not left them an obvious, low political cost, alternative approach that can deliver sustainable, upwardly path dependent social care funding. The extended social care crisis and protracted policy debates do however suggest that policymakers will eventually choose to do 'something' beyond simply injecting greater funding into the existing system. Central government and the Department of Health and Social Care are remote from care policy decisions made by local councils, and there are good operational reasons for this devolved approach. While central government has largely left care management to local government, a regulatory approach has long been used to guide the direction of provision⁹⁶. This devolved policy approach allowed policymakers to share the blame for austerity after 2010, but the growing impact of spending cuts and a lack of social care policy levers that central government can pull when needed underpin calls for a new approach that would give policymakers more control over funding policy and could be designed to better fund existing and future care institutions. Sutherland (1999) and Dilnot (2011) both offer policy reform based on off-the-shelf solutions that would allow policymakers to engage with the problems of social care funding without having to invest significant political capital. The Dilnot care cap has already been enacted (and then reversed) by policymakers and Sutherland's free personal care has been operating in Scotland since 2002. While both of these policy changes require a significant step change in public spending, this obstacle did not block funding reform in the two comparator cases (or English social care provision reform in the 1980s). A more

⁹⁶ Local government is regulated to ensure that the policy priorities of incumbent administrations are delivered; care outsourcing and marketisation in the 1980s, cost containment in the 1990s, personalisation, homecare and gradual care intensification in the 2000s, and austerity and 'Big Society' community empowerment after 2010.

serious issue with adopting either / both policies is that neither delivers a sustainable funding regime. Both propose an increase in the generosity of care benefits funded by the existing inadequate funding approach, far from addressing systemic local government underfunding, they could exacerbate the problem.

Widespread calls for sustainable funding reform from the social care policy community and continued government inaction initially drove various interested organisations to propose new funding policy solutions but continued green paper delays, despite the efforts of Damian Green (Green, 2019) and other policy entrepreneurs, have stalled the institutional reform debate. While many commentators argue radical reform is needed, there are significant political and functional problems with all of the funding alternatives being considered (including the status quo). The marginality of English social care and Thatcherite ideational unblocking of the policy stream allowed Conservative policymakers, with a large parliamentary majority, to marketise commissioning and outsource care provision in the 1980s at little political cost, but they did not enact sustainable funding. This failure to institutionalise upwardly path dependent funding to address rising need left care institutions vulnerable when policymakers reduced public spending after 2010. In the decade before financial austerity, publicly commissioned social care spending increased by more than half (Simpson, 2017, p.4), a period congruent with the organisational goals of social care institutions and a funding environment to which those operating in the sector would prefer to return. The social care crisis is driven by public spending falling below the norms anticipated by public and private care institutions while demographic and socio-economic factors have increased demand. Local government has a statutory requirement to increase care provision, but local taxation is capped by central government and central funding grants to local government have been reduced significantly. Static (or worse) public funding, rising care costs and demographic change have put downward pressure on per capita care spending, damaging the quality of care provision and increasing unmet need. This approach is unsustainable, but in the absence of broad public engagement, the social care funding crisis remains a personal crisis for those within the care system, a source of conflict between central and local government and an institutional crisis for those delivering care.

Without systemic reform, the future financing environment for English social care does not look promising. Years of austerity have damaged the ability of local government to improve care provision and highlighted major structural problems with how local government is financed. While there is a widely perceived need and policymaker desire to improve care funding, radical public funding reform is vanishingly rare, and the current English political environment is no more consistent with reform than it was in the recent non-reforming past. This leaves many commentators pessimistic about

sustainable public funding reform. Despite this pessimism, there could be scope to rework existing institutions to engineer a new alternative funding approach. The successful reform cases analysed in chapter four, and past English social care provision reforms, demonstrate that change is possible in marginal policy areas when there is a perceived problem and an alternative approach exists that is better aligned with the policy objectives of the relevant policymakers than the current approach. With mandatory insurance and public hypothecation politically problematic, non-mandatory but ‘encouraged’ private reform options may be more likely. State-guided, private hypothecation has delivered a successful auto-enrolment pension regime in the UK and auto-enrolment care insurance might eventually deliver similar outcomes while allowing policymakers to frame the programmes as voluntary⁹⁷. Auto-enrolled pensions enjoy broad cross-party policymaker support (Harrop and Hall, 2017, p.3), so it may be possible to build a reasonably broad consensus around such a scheme (although a consensus may not coalesce until the scheme has been introduced and successfully embedded in the fabric of the welfare state). Before the most recent delay in publication, Brady (2019) reported that the green paper was likely to propose a more generous means test for publicly funded care, would revisit the lifetime cap on social care payments and consult on policy options that included “an insurance contribution model, a care ISA [private savings account] and tax-free withdrawals from pension pots” (Brady, 2019) to fund care. While major public players in the social care policy community are likely to block long-run hypothecated *public* social insurance, private, auto-enrolment insurance could complement means-tested public care funding, combining some of the risk pooling benefits of mandatory German long-term care insurance with the legal guarantees that protect private funded pensions in the UK. While auto-enrolment pensions will reduce means tested benefits payable by the state to future pensioners, they are not widely seen as a disguised tax. If an auto-enrolment social care insurance scheme were similarly perceived, this approach might also allow policymakers to engineer a new voluntary, ‘encouraged’ welfare funding institution at minimal public cost that avoided the political damage associated with the ‘dementia’ and ‘death’ taxes⁹⁸.

⁹⁷ While UK auto-enrolment pensions are non-mandatory, in the seven years since they were introduced the share of the employed workforce with a private pension (93%) has almost doubled. In September 2018, Matt Hancock, Secretary of State for Health and Social Care, noted that auto-enrolment pensions have been a great success and argued that introducing private auto-enrolment care insurance could significantly increase the level of saving for social care (Espadinha, 2018).

⁹⁸ The comparative analysis undertaken in chapter four suggests that a reform implementation approach mimicking the unplanned evolution of SERPS (1978 to 2014) might also help policymakers negotiate two significant blocks in the sustainable care funding policy stream (a failed private social care insurance market and a UK institutional unwillingness to introduce and *persist* with public hypothecation). Temporary ring-fenced public care insurance could be introduced relatively quickly, followed by a move to hybrid public / private insurance once the market had been proven and on to private, auto-enrolment insurance in the longer term.

Chapter 7. Why does English social care face a persistent funding crisis?

Policymakers in England are faced with very significant demographic and socio-economic issues when they are formulating policies to support the welfare needs of older people. The population is ageing, many families are becoming less able to provide informal care and the cost of health and social care tends to rise more quickly than general prices. In some policy areas, welfare programmes for those who have retired have become increasingly generous while in others the welfare state has responded to rising need by restricting benefit eligibility and attempting to contain costs. While average incomes for those in work have changed little in the past decade, real pensioner incomes have risen significantly⁹⁹. In contrast to rising pensions, public funding for residential and home care fell in the years that followed the Great Recession and 460,000 fewer older people received publicly funded social care in 2018 than in 2009 (Burchardt et al., 2015, p.28; NHS Digital, 2018, p.8).

To analyse the drivers of these very different programme outcomes in a single welfare state, this thesis has explored how existing institutions channel the politics of organisational change, charted the historical development of English social care provision and the wider welfare state, compared programme outcomes and institutional structures in three welfare programmes that cater for older people, drawn upon data sets, document analysis and interviews, and applied ideational and conceptual approaches that include a maturing welfare state, institutional and policy drift, retrenchment theory, the multiple streams framework and the garbage can model.

In the decade before the financial crisis of 2008, the three welfare institutions compared in the thesis all enjoyed rising programme spending. In the subsequent decade, UK pensioners and German long-term care insurance recipients continued to see rising funding and improving programme outcomes, while English public social care spending fell. Policymakers had institutionalised sustainable, ring-fenced funding to support provision in the two better performing welfare programmes but had not done so for English social care. The outcome divergence seen is underpinned by these very different institutional funding arrangements. When taxation is pooled, funding tight and policymakers aim to minimise the political damage they suffer from spending restraint, marginal lower salience welfare programmes that lack sustainable funding mechanisms are more likely to suffer systemic

⁹⁹ The thesis argues that rising pensioner incomes at a time of stagnant real wages and growing income inequality are underpinned by a robust, upwardly path-dependent, multi-pillar pension funding regime. While the current funding approach has delivered improving pensioner incomes for decades, continuing pensioner income growth may not be financially sustainable in the longer term if policymakers fail to engineer a return to rising real wages for those in work.

underfunding. Having argued that the funding sustainability mechanisms present in the two comparator cases are a key element of welfare programme success, the introductory chapter asked;

If a robust funding approach has delivered sustainably funded benefits to UK pensioners and German social care recipients in a climate of on-going financial austerity, and there is widespread agreement that the current social care funding approach is inappropriate and inequitable, why have policymakers consistently failed to introduce a sustainable funding approach for English social care?

To answer this question, the thesis began by demonstrating that English social care is a residually funded welfare programme that is of marginal interest to many citizens¹⁰⁰ and makes up a relatively small part of UK government spending¹⁰¹. Policymakers could (and may well) choose to apply significantly more resources to social care using the existing local government funding approach in the next few years¹⁰² and this will, after a period of austerity reversal, resolve the *current* underfunding of *existing* care institutions¹⁰³. The ingrained marginality of English social care will however remain, and once policymaker engagement with the need for rising care funding and investment begins to wane, a significant, mature and growing welfare institution will again be left without the sustainable, upwardly path dependent funding mechanisms of the legacy positive welfare state core or more recently introduced devolved, non-taxation funding institutions¹⁰⁴.

This is the systemic funding problem that mediates calls for reform. While there is broad cross-party policymaker agreement that England needs more care funding today and a sustainable care funding

¹⁰⁰ A social care consultant suggested that a “fog of incomprehension” (Interviewee 029, 2018) protects social care policymakers who fail to address persistent care underfunding and an MP argued that most citizens are not particularly engaged with social care (Interviewee 031, 2018).

¹⁰¹ In 2018 total public spending in the UK was £810bn (ONS, 2019b). English local government social care spending in 2018 was £17.9bn (NHS Digital, 2018, T4), which is 2.2% of UK public spending in the year. In 2019, the Local Government Association (Local Government Association, 2019) stated that preserving existing (inadequate) levels of local government commissioned social care provision in England would require spending to rise by an extra £3.6bn per annum by 2025 (0.4% of public spending in 2018).

¹⁰² The Blair administration increased local government commissioned social care spending by 54%, from £11.8bn to £18bn (Simpson, 2017, p.4) between 2000 and 2010.

¹⁰³ The thesis has argued that the English social care funding crisis is institutional and personal, with the institutional funding crisis driven by the rate of (upward) change in funding levels falling below historically expected norms. German social care policy is well regarded by many commentators, but publicly funded care spending levels there are similar to England. German social care expenditure has however risen in the past decade from a lower base while it has fallen in England.

¹⁰⁴ Devolved regulatory welfare funding solutions introduced by policymakers in the UK include the national minimum wage, pension auto-enrolment and the student loan scheme. These sustainable, programme-specific funding approaches are all built around employment, guided by the state, not directly funded by pooled general taxation and, to varying degrees, engineered using fiscal welfare, regulatory welfare and the ideas of behavioural economics. They tend to be mandatory for employers but are ‘optional’ for citizens.

approach for the future, history has not left an obvious route to a sustainable social care funding solution in the policy garbage can. The lack of a clear alternative approach has left semi-engaged policymakers undecided about the most appropriate policy response and care funding stuck in the residual, Poor Law, local welfare state paradigm without automatic mechanisms to grow funding. Half-hearted attempts to promote and engineer private social care insurance have also failed, leaving citizens unable to protect themselves against the risk of catastrophic care costs in old age. With the state reluctant to row, and no obvious funding institutions that policymakers might repurpose and steer, a significant market failure remains unaddressed. In the two comparator cases, when policymakers perceived there was a funding problem and broadly agreed what should be done (based on an established, rapidly deployable institutional solution which minimised the political cost of reform), it was possible to enact sustainable welfare funding reform. Having re-engineered pre-existing institutions, policymakers then used legislation and regulatory bureaucrats to steer the reimagined welfare funding institutions they had created. Where alternative funding arrangements are weaker or do not exist, introducing a new sustainable funding institution is more complicated and likely to incur a higher political cost. This dynamic inhibits policymaker action in English social care. While policymakers might express a desire for funding policy change, moving social care towards the more generously funded welfare state core has proved to be technically and politically unworkable and, lacking a pre-existing reform template, less than fully engaged policymakers have failed to engineer a bespoke, sustainable funding solution¹⁰⁵.

The thesis concludes with a summary of the research findings developed and evidence presented in the analytical chapters that underpin this analysis, considers the analytical benefits of combining historical institutionalism with the multiple streams framework and suggests that engineering a care funding 'double movement' that mimics the evolution of SERPS pensions might offer English policymakers an implementation path to a more sustainable care funding approach.

¹⁰⁵ Most English policymakers believe the current local government managed and funded social care regime is not fit for purpose and needs reform (Independent Age, 2017). Having stumbled into using means-tested supplementary benefit payments to fund residential care for older people in the 1980s, the Thatcher administration also sought a new funding approach in the late 1980s that did not rely on local government to fund and manage social care. Eventually, despite a clear preference to not increase the scope of local government at the time (Ridley, 1988, p.6), Conservative policymakers concluded there was no serious alternative (Means et al., 2002, p. 4) and the management and funding of all publicly commissioned residential care reverted to local government.

1. Research findings

Chapter three charted the historical development of the UK welfare state, arguing that successful welfare institutions are supported by sustainable funding mechanisms. Two very different welfare state eras and institutional inertia have created two sustainable welfare funding poles: a legacy general taxation funded welfare state core and devolved non-taxation funding mechanisms which have become the preferred reform approach for today's policymakers. Neither of these poles sustainably supports English social care. The UK's mature general taxation funded welfare state has enjoyed a rising share of national income for decades, is an aggregation of often quite different institutions that have evolved over time and is not particularly responsive to emergent welfare need. Historically, the developing welfare state drove centralisation and standardisation, as the management of provision passed from parish to council to central government. While this process improved coverage rates and programme quality, rising taxation was required and some marginal welfare areas, including social care, were left behind. Golden age policymakers made generous welfare state promises and these have broadly been kept. Despite attempted retrenchment, the visible, popular, taxation funded welfare state core remains resilient, but past choices limit current policy options, and policy drift and the strength of welfare state insiders reduce institutional flexibility. Once institutions are created and embedded in the fabric of the welfare state, they are hard to reform. An environment of welfare state maturity, managerial policymakers, financial constraints and popular support for existing provision limits the scope for welfare state outsider programmes to achieve increased levels of taxation funded public welfare provision. To fill gaps in coverage, policymakers have increasingly turned to regulation, fiscal welfare, and behavioural economics to steer the choices made by citizens and companies. When combined with existing, slow changing insider programmes, we have an increasingly heterogeneous welfare state made up of programmes with very different objectives, founding missions and funding approaches. While English social care never really escaped the marginal, local council funded Poor Law tradition, the state pension and National Health Service reside in the more generously funded legacy positive welfare state core and the minimum wage, student loans and auto-enrolment pensions have all been created in the post golden age era of regulatory welfare. The legacy core public welfare state and more recent devolved regulatory welfare programmes are underpinned by very different, but sustainable, funding mechanisms and have fared relatively well in the past decade.

Social care has not and is managed and funded by local government which lacks institutional funding supports and has been badly impacted by austerity. With a move towards the core welfare state politically and technically problematic, a broad coalition of commentators and policymakers have

argued for a step change in spending today and a more sustainable funding approach for the future. While policymakers have started to increase English social care spending, funding reforms have not been forthcoming. Sustainable funding reform has however been possible in similarly marginal welfare programmes that cater for older people, so chapter four analysed two post golden age cases where new welfare funding approaches were introduced. The chapter argued that reforms in the two comparators were based on pre-existing alternative institutions and were made more likely because the existing funding institution was relatively underdeveloped. In both cases these popular, preferred funding institutions were readily available, and this guided the politics of organisational change when policymakers sought a more sustainable funding approach. The cases demonstrate that when policymakers agree there is a problem and a preferred and implementable solution presents itself, reform was possible in majoritarian and consensual political systems. Having a pre-existing institutional structure into which reform efforts could be directed helped policymakers and citizens to understand and engage with funding reform and allowed a large enough policy consensus to develop amongst the relevant policymakers. Both reforms institutionalised an upwardly path dependent, state-guided, hybrid public and private funding pillar that complemented existing general taxation funded public provision. An analysis of post-reform institutional development also demonstrated the protective, simplifying and beneficiary empowering benefits that can accrue to a welfare programme that is supported by a robust programme specific funding institution. Ring-fenced funding can protect welfare programmes against benefit retrenchment and gives policy entrepreneurs, policymakers and the wider policy community a focus for lobbying, provision improvements and a clear state-guided, non-taxation mechanism to increase funding over time¹⁰⁶.

Having analysed two cases where policymakers successfully introduced sustainable welfare funding, the final two analytical chapters asked why policymakers have failed to move social care towards the better funded welfare state core or to enact a more robust bespoke funding approach. Chapter five noted that English social care has historically been a relatively marginal, fragmented welfare programme. The residual nature and low salience of social care facilitated radical provision reforms in the 1980s when private providers were encouraged to deliver publicly commissioned care, but policymakers failed to address the need for sustainable funding or to protect against future retrenchment. The recent development of English social care has seen continued central government

¹⁰⁶ The Netherlands introduced mandatory, defined benefit, universal public social care insurance in 1968. As care need grew and policymakers broadened eligibility over time, upwardly path dependent programme funding increased automatically. Starting from a relatively low base in 1968, public social care spending had risen to 4.3% of GDP by 2014 (OECD, 2018) leaving many policymakers concerned about social care 'overfunding'. In 2014, UK care expenditure was 1.2% of GDP (OECD, 2018).

disengagement, emergent policies and the use of regulatory welfare and targeted fixes to achieve specific policymaker outcomes rather than adopting a long term, strategic approach. The devolved nature of social care has allowed central government policymakers to remain disengaged from an area of rising welfare need and to share the blame for recent cuts in provision. Austerity has reduced care spending while demand has increased, accelerating care intensification and a reversion to informal care by the family and formal residential care. While social care suffers from systemic underfunding, decades of policymaker disengagement and care outsourcing have created a complex of well-developed de-centred institutions that commission and deliver social care. This fragmented network distributes veto points across multiple institutions, is poorly integrated with the National Health Service and is financed by local government that is an increasingly porous funding mechanism. With the council funding channel damaged by austerity, policymakers have been drawn towards the need for an alternative, more sustainable funding solution, but no obvious mechanism exists. Numerous commissions have proposed policy change, but English social care is still funded by individual self-insurance with public funding only available when the care recipient approaches insolvency.

In 2020, English social care is a relatively well developed, devolved welfare institution that central government struggles to steer. While lacking a sustainable funding approach the sector does have a large and vocal institutional community that advocates greater care funding after a decade of austerity that has been a significant shock to care institutions that enjoyed strong public funding growth in the preceding decade. Chapter six noted that social care faces an individual and institutional funding crisis, but policymakers are still not particularly engaged and remain unwilling to invest significant amounts of political capital in policy reform, so they look for pre-existing, popular solutions to the funding problem. The growing impacts of spending restraint and a lack of central government policy levers underpin calls for a more sustainable and steerable funding approach that would give policymakers greater influence over funding policy direction and programme outcomes. Unfortunately, when policymakers have looked in the policy garbage can, they find that history has not left them an obvious solution that they can use to engineer a sustainable care funding solution. While austerity has damaged the ability of local government to improve care provision and there is a widely perceived need and policymaker desire to improve care outcomes, radical reforms look unlikely. There is however scope for policymakers to do 'something' about social care. Public hypothecation and mandatory taxation-based funding reform are problematic, but Sutherland (1999) and Dilnot (2011) do offer a path to more generous care benefits, albeit financed by the existing systemically inadequate public funding approach. If a green paper is eventually published it may also propose other policy options plucked from the policy garbage can: a promise to consult on care insurance, care savings

accounts and the use of pensions to fund care. While not delivering sustainable care funding for all citizens, these approaches would allow policymakers to demonstrate government activity, are deliverable and would give the better off a way to protect against the risks of catastrophic care costs in old age.

2. Path dependency and path deviation

In the two cases of sustainable funding reform analysed, when a “critical moment for path deviation” (Spohr, 2016, p.269) opened, history had put an alternative funding institution, better aligned with regulatory state policymaker preferences than the status quo, in the policy garbage can. When policymakers concluded that a problem existed, they chose to embrace the more attractive alternative funding approach. Having a clear alternative policy solution already in place allowed the politics of reform to follow the existing institutional form. England lacks a compelling alternative social care funding approach, strong UK governments with large majorities have failed to enact radical funding reform in previous critical junctures and most commentators argue that the chances of sustainable funding reforms being introduced today, despite widespread policymaker agreement that there is a problem, are low.

The garbage can model (Cohen, March and Olsen, 1972) and multiple streams framework (Kingdon, 1984) both treat the problem, policy and politics streams as relatively independent variables, but in the two successful reform cases analysed we see policymakers choosing between existing historically determined structures, policies and institutions with existing alternative solutions guiding the politics. Mucciaroni (1992, p.467) argues that the garbage can model and three streams approach give undue weight to the situational aspects of policymaking and need to be combined with a consideration of the critical antecedents (Slater and Simmons, 2010, p.911) of change and the impact of institutional factors that mediate the problems and solutions that are considered by policymakers (Mucciaroni, 1992, p.482). This approach blends historical institutionalism, which emphasises the deterministic, path dependent qualities of institutions (Spohr, 2016, p.258) giving less attention to policy entrepreneurs and the mechanisms of change (Lynch and Rhodes, 2016, p.424), with complementary approaches that can better predict policymaker action / inaction. For Pierson (2004, p.155) the financial and political costs of replacing an institution also mediate institutional stability and how change is implemented when policymakers decide it is needed. Where both are high, he predicts that existing institutions will persist with reforms operating in parallel. This is how change unfolded in both of the funding reform cases considered. Pre-existing institutional structures channelled how policymakers engaged with reform and allowed a large enough policy consensus to develop giving

policymakers space to rework existing, trusted organisations to institutionalise a new parallel funding pillar without having to incur the political and financial costs of removing the existing funding approach.

Spohr (2016, p.258) drew on Mucciaroni's critique, developing a "framework for the explanation of path dependency and deviation" that combines historical institutional insights with Kingdon's multiple streams framework, and used it to analyse labour market reforms in Germany and Sweden. He concludes that path deviating reform was contingent on four factors: a new policy approach must emerge in the policy stream, the grip of any focused, technocratic policy community that dominates the policy stream needs to weaken¹⁰⁷, a window of opportunity (a "critical moment for path deviation") has to open and policy entrepreneurs need to "strategically exploit the ambivalence of institutions, values and problems" (Spohr, 2016, p.269) to shape the path of reforms.

This thesis has employed a similar framework to analyse two cases of successful funding reform and a case of persistent social care non-reform. The research undertaken confirms that combining historical institutionalism and the multiple streams framework delivers valuable insights into the forces that drive path continuity and deviation. The thesis also demonstrates that despite a clear reform opportunity in the problem stream (the political stream also became more consistent with reform after the December 2019 general election) and the best efforts of Dominic Green and other policy entrepreneurs, achieving path departing funding reform requires a 'new', plausible and implementable alternative policy approach within the policy stream / garbage can that is acceptable to the (still dominant) social care policy community. Without this policy entrepreneurs are less likely to be able to deliver path deviating change.

3. Punctuating the inadequate care funding equilibrium

Writing in the 1990s, Pierson (1994, p.2) argued that welfare state retrenchment had been more modest than was expected by many commentators in the 1980s. While asserting that popular universal programmes had not changed radically in the ways in which they presented to policy takers, he suggested that marginal programmes were more likely to experience immediate retrenchment and that systemic retrenchment policies that reinvented institutional forms could also weaken protections

¹⁰⁷ Kingdon (1984, p.118) notes that the structure of policy communities can range from focused, integrated policy communities to fragmented issue networks. Spohr (2016, p.259) argues that "the structure of policy communities may ... provide an explanation for path dependency and deviation" with integrated policy communities tending to prefer path dependent evolutionary change. This suggests path departure is less likely in welfare areas like social care where a focused, technocratic policy community dominates the policy stream and policymakers are less than fully engaged.

against future retrenchment (Pierson, 1994, p.146). Pierson's analysis began a robust debate, with some arguing that public welfare spending may have risen, but not fast enough to meet increasing need (Levy, 2010). A further critique suggests that while overall retrenchment may have been modest, a policy environment that combines growing welfare demand with constrained spending has created winners (large, popular, universal core welfare state programmes like pensions and healthcare) and losers (smaller, niche programmes without a broad policy taker base that lack popular support such as English social care). While core welfare programmes might persist, emerging non-core welfare needs would not be met as neoliberal policymakers blocked the extension of the core welfare state into new areas leaving more marginal welfare programmes systemically underfunded. Pierson (2011, p.22) later returned to his analysis of retrenchment to consider the implications of welfare state drift. While noting that overall welfare spending is rising, and core programme generosity and universality have remained relatively stable, he argues that when a frozen policy equilibrium combines with significant societal change this delivers a transformation in the impact of the welfare state. Popular existing welfare programmes crowd out emerging welfare need as existing policy takers dominate provision and limit the opportunities for newly emerging, and potentially more worthy claimants.

UK earnings-related pensions, German social care and English social care are three cases where significant levels of additional need developed in non-core welfare areas after the golden age of welfare had passed. The cases demonstrate that when need emerges in marginal welfare areas and history has put alternative, sustainable funding solutions into the policy garbage can, post golden age policymakers have been willing and able to use them to engineer well-funded welfare outcomes. Pierson's analysis evolved from arguing that welfare state retrenchment has been unexpectedly modest to suggesting that a frozen welfare state can leave emergent need in marginal policy areas unmet. The research undertaken in this thesis suggests that when faced with the welfare gaps predicted by Pierson, policymakers have sought to create paths to more sustainable welfare funding in emerging areas of welfare need without recourse to greater taxation. This approach relies upon history having left a politically viable, reasonably complete, non-taxation funding solution in the policy garbage can that policymakers can repurpose and then 'encourage' citizens to use. While German policymakers punctuated the inadequate care funding equilibrium in the 1990s by re-engineering existing health insurance schemes, the lack of an existing alternative care funding approach is a fundamental block in the English policy stream. The SERPS pension reform comparator case might however suggest a possible route to transform how English social care is funded. While the unadopted reform options discussed in chapter six all suggest single stage solutions, a reform implementation strategy that mimics the unplanned evolution of SERPS over time (public care insurance first followed

by gradual privatisation)¹⁰⁸ might allow policymakers to negotiate two significant blocks in the sustainable care funding policy stream: a failed private social care insurance market (a potential additional funding approach) and a long-standing institutional unwillingness to introduce *and persist with* public hypothecation.

¹⁰⁸ Chapter six argues that auto-enrolled, social care insurance might offer policymakers a new voluntary (but 'encouraged') welfare funding approach at minimal public (general taxation funded) cost that avoids the political damage associated with past 'dementia' and 'death' taxes. The SERPS comparator case also suggests that ring-fenced public care insurance (while politically problematic) could be introduced relatively quickly and might then be followed by a move to hybrid public / private (or fully private) care insurance once an insurance market had been established.

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Sustainably funding a marginal welfare programme

Why does English social care for older people face a persistent funding crisis?

9. Glossary

ADASS	Association of Directors of Adult Social Services
CDU	Christian Democratic Union (<i>Christlich Demokratische Union</i>)
CQC	Care Quality Commission
CSU	Christian Social Union in Bavaria (<i>Christlich-Soziale Union in Bayern</i>)
DDR	German Democratic Republic (<i>Deutsche Demokratische Republik</i>)
DHSS	Department of Health and Social Security
DSS	Department of Social Security
DWP	Department of Work and Pensions
EU	European Union
FDP	Free Democratic Party (<i>Freie Demokratische Partei</i>)
GDP	Gross Domestic Product
IFS	Institute for Fiscal Studies
ISA	Individual Savings Account
LGA	Local Government Association
NASCIS	National Adult Social Care Intelligence Service
NATO	North Atlantic Treaty Organisation
NEST	National Employment Savings Trust
NHS	National Health Service
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
PQM	Pension Quality Mark
S2P	State Second Pension
SERPS	State Earnings Related Pension Scheme

Sustainably funding a marginal welfare programme

Why does English social care for older people face a persistent funding crisis?

SPD Social Democratic Party of Germany (*Sozialdemokratische Partei Deutschlands*)

UN United Nations

UNISON A UK public service trade union

VCSE Voluntary, Community and Social Enterprise

10. Appendix – Explanatory variables

The nineteen potential funding reform explanatory variables considered in the thesis are listed below.

Global explanatory variables

- Social trends
- Economic trends
- Technological trends
- Demographic trends

National explanatory variables

- Constitutional structure
- Political system type (Lijphart, 1984)
- Ideational environment
- Welfare state type (Andersen, 1990)
- Preferred welfare funding approach

Institutional funding explanatory variables

- Pre-reform funding institutions
- Pre-reform institutional maturity
- Pre-reform risk approach
- Programme benefit type
- Programme structure
- Programme salience
- Availability of an existing alternative funding institution

Political calculus / multiple streams (Kingdon, 1984) explanatory variables

- Problem stream – broad relevant policymaker consensus that there is a problem
- Policy stream – broad relevant policymaker consensus on how to solve the problem
- Political stream – political focus on the problem and a policymaker majority in favour of reform