

A Social State for 2015 has to defeat idleness by creat...

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In the [CLASS think tank paper that Howard Reed and I have written](#) that reconsiders Beveridge's concept of idleness in a 21st century framework we argue that:

Tax is, indisputably, the most important way in which any government intervenes in an economy. This inevitably means that when considering how a government is to tackle idleness, as is its duty, tax has to be taken into account. In our opinion there are two ways in which this has to be done. One is a macroeconomic consideration which relates to how the tax system as a whole, the balance between tax and spending, and the relationship between taxes, can be adjusted to tackle idleness.

Secondly, there is a micro-economic consideration of tax issues which looks at the detailed design of the tax system to ensure that it does not, by itself, put obstacles in the path of people working.

Our recommendations here are radical: we are committed to strong, progressive taxation. That means we believe that as income rises the proportion of the total income that a person pays in tax should rise as well. It is a principle of tax justice, usually described as vertical equity, that few would wish to dispute. However, the UK tax system does not deliver vertical equity in a great many cases. It is our opinion that this is best addressed by a complete redesign of the Income Tax, National Insurance and benefits systems: nothing less will do if we are to tackle institutional impediments to idleness.

Our proposed system is based around two simple components:

1. Basic income payment — Minimum Income Standard . All families would receive an unconditional, tax-free basic income payment that would be set at levels sufficient to alleviate poverty.

2. Unified Income Tax (UIT). The current Income Tax system and the entire National Insurance Contributions system would be replaced by a single Income Tax structure which would be clear and progressive.

In 1942 Beveridge said the war provided a revolutionary moment and as he noted “a revolutionary moment in the world’s history is a time for revolutions, not for patching”. We agree. The global recession is now providing another revolutionary moment in which new thinking is required and that is what we have sought to offer in this paper.

The macro-economic arguments for reform are well known to readers of this blog. As we argue in the paper:

[Beveridge was quite sure that it was] not the role of the government to keep people in a state of idleness. He did not see that as responsible from a social viewpoint. Nor did he see it as affordable. He saw it as the role of the state to ensure that there was opportunity for gainful employment for those who wanted it. The cure to idleness was work, and Beveridge believed that the role of the state was to make sure that work was available for all who wanted it.

We agree with that. We continue, arguing that Beveridge was a man of his time, that:

Keynes’ logic was simple: he argued that if people were in work then, assuming the economy was otherwise in a state where people would be unemployed, if the government were to provide work for these people (either directly or through enabling their employment in the private sector, for example via subsidies to employers) this would generate enough income to pay the taxes that would justify the spending required to ensure they were put to work in the first place. In effect, he argued that there was a beneficial and virtuous circle where borrowing to put people to work in turn created income on which tax was paid sufficient to repay the borrowing undertaken. This was the core of his argument that there was a multiplier effect in the economy.

We most especially agree when:

Idleness is caused by a lack of demand in the economy. Put straightforwardly there are resources available in the UK in the form of people who are trained and willing to work that employers do not wish to put to use in any gainful way. We have a low minimum wage, and whilst just 4% of employees in the UK as a whole are on that minimum wage over 20% earn less than a living wage (defined as £8.30 an hour in London and £7.20 elsewhere). There is no evidence that the introduction of the National Minimum Wage in 1999, and subsequent increases in its value over the next thirteen years, increased unemployment. Given that this is the case, it seems clear that in the vast majority of cases, people are not unemployed because they want to be; they are unemployed because there is insufficient work. In that case a Social State for 2015 has to defeat idleness by creating work.

And it's for that reason that we argue for macroeconomic intervention to create work, and a reform of the tax and benefits system to ensure it's attractive to all who want it,

with progressive tax built in, which it isn't now.

That tax reform will be the subject of another blog.