

*“Benefit in return for contributions, rather than free allowances from the State, is what the people of Britain desire.”*

William Beveridge *Social Insurance and Allied Services* (1942)

# *Making a contribution: social security for the future*

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(1) What was Beveridge's contributory principle?

(2) What are the challenges faced by social security where the contributory principle is relevant?

(3) Four options for thinking about how the contributory principle could be revived

Coda: the other pillars of Beveridge's system in the 21<sup>st</sup> century

## (1) What is the contributory principle?

- Beveridge's three pillars: social insurance, universal benefits, full employment. Social assistance as safety net.
- Contributory principle applies to social insurance only
- Social insurance: Unplanned & planned contingencies leading to insurance & saving functions
- Contingencies covered: unemployment, sickness, bereavement & *adult-onset* disability; childbirth & retirement

## (1) Normative values in Beveridge's report

- Reciprocity e.g. today's workers pay pensions of yesterday's workers
- Solidarity via risk redistribution: *'each individual should stand ... on the same terms; none should claim to pay less because he is healthier or has more regular employment..'* (Beveridge)
- Beveridgean egalitarianism? Flat-rate benefits and contributions
- Inclusion: major exclusions and inequalities in 1948 system, but Beveridge's aim was to bring great majority into system on equal basis

## (2) Current problems with social security

- Massive lack of public confidence
- Low value of contributory benefits & lack of population coverage
- Governments have diverted National Insurance contributions to other uses
- So link between contribution and entitlement missing at individual and collective levels
- Demographic change will increase dependency ratio over next 30 years

## (2) 'Something for nothing'?

- Framing of social security debate dominated by alleged lack of reciprocity e.g. 'families where nobody has worked for generations' 'unfairness to taxpayer'
- Public overestimates expenditure, benefit fraud and underestimates extent to which claimants will make contribution in future
- Information asymmetry between claimants and rest of public

## (2) 'Something for nothing'?

- Public opinion has hardened while out-of-work caseloads and expenditure have fallen and benefit conditionality has increased
- 'Invisible reciprocity'? Most benefit claimants have contributed in past and will contribute in future
- Disability and caring increasingly important in long-term benefit reliance

## (2) 'Ending welfare as we know it'

Echoes of US research on (minimal) attitudinal impact of Clinton-era reforms

- 'Welfare' both 'distant' (from most voters' experience) and 'visible' (highly salient in political discourse)
- [Progressive revisionists] 'focussed on the visibility of welfare without attending to the fact that had little proximity to the lives of most Americans.'
- 'When a policy exists as a potent but distant symbol for mass publics the details of its material design will seldom anchor public understandings of the policy'
- 'Policies will often be valued less for what they achieve than for what they affirm'  
Soss & Schram 'Welfare reform as a failed political strategy'



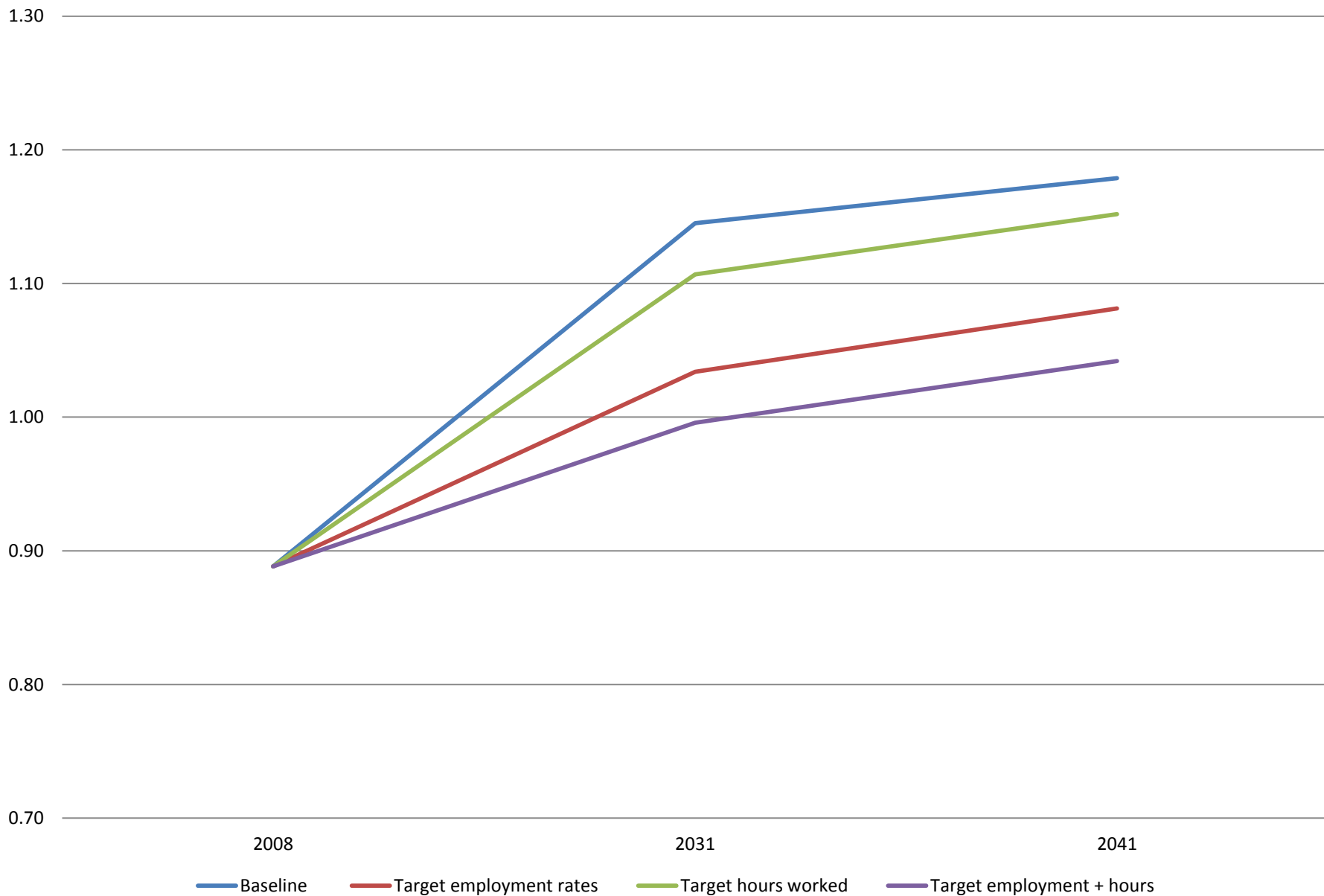
## (2) 'Nothing for something'?

- Value of contributory benefits has been eroded except for Statutory Maternity Pay
- Tighter eligibility coupled with labour market changes reduce coverage e.g. only 9% of unemployed receiving contributory JSA (2008)
- Does lack of return on contributions ('nothing for something') help explain 'something for nothing' assumption?

## (2) Demographic change

- Dependency ratio 0.89 in 2008 (i.e. children and over 64's /workers, adjusted to reflect hours worked) set to rise to 1.15 by 2031 (29%) and 1.18 by 2041 (33%) (ONS 'low migration scenario', constant economic activity rates by age, gender)
- Increased employment could reduce this increase, but how much is realistic?
- Historical data on economic activity rates and weekly hours worked by age and gender from sample 14 comparable nations
- UK and English-speaking now lagging continental western European and Nordic nations in prime-age groups
- Scenarios apply higher rates and/or hours by gender/age band from international sample to UK population 2031 and 2041
- Best case scenario: dependency ratio rises by 12% compared to 29% on baseline 2031; 17% compared to 33% 2041

# Change in dependency ratio under alternative employment scenarios



### (3) A revived contributory principle?

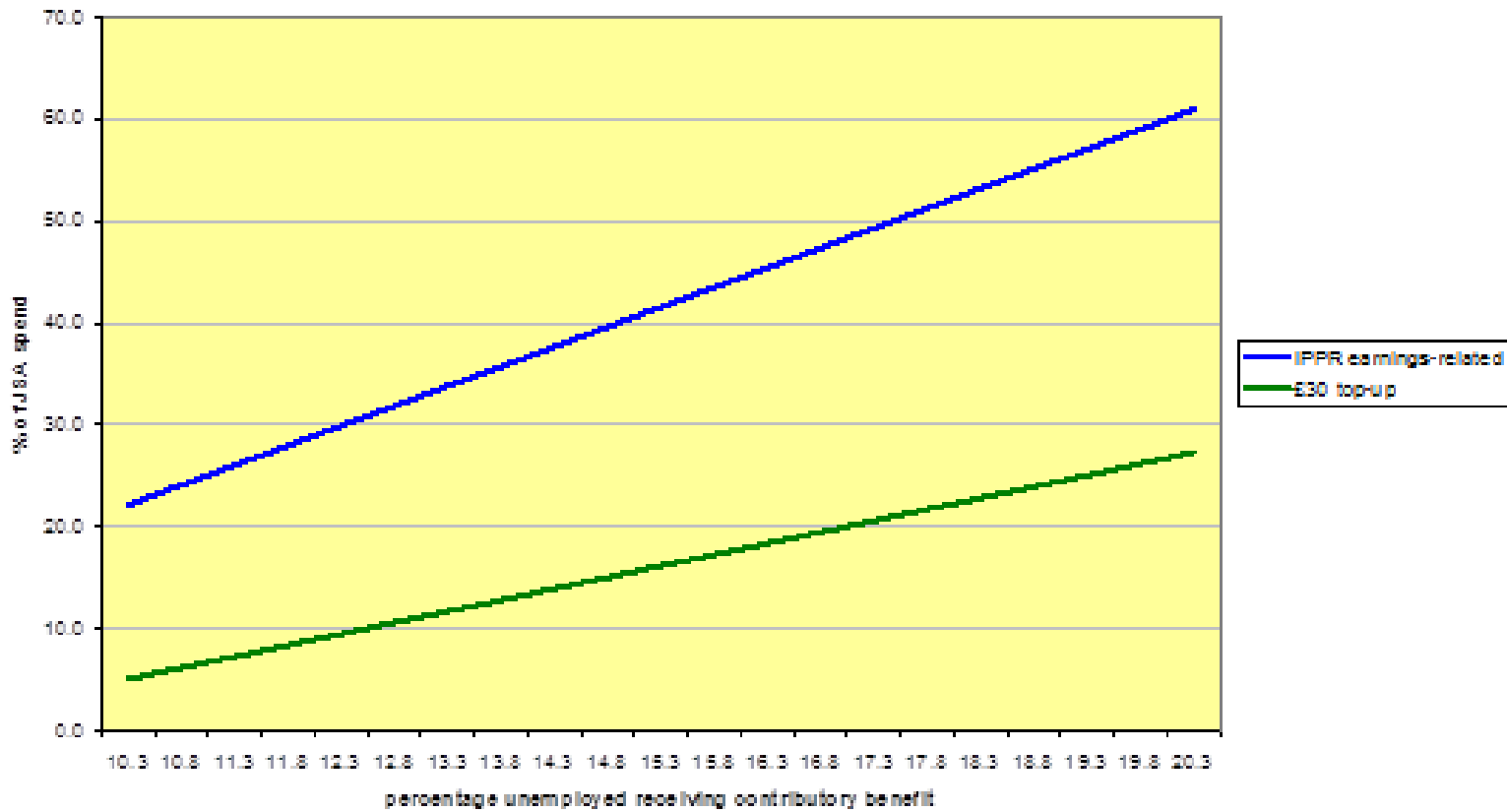
Where does a link between contributions and entitlement make sense?

- Where it can facilitate labour market attachment
  - Increases the value of paid work
  - Individualised incomes – avoids household benefit traps
  - Facilitates *temporary* labour market exit (e.g. Maternity leave) while incentivising long term attachment
  
- Where it can re-enforce sense of shared citizenship
  - Horton and Bamfield: ‘Perceptions of the extent to which benefit recipients make a reciprocal contribution is fundamental in driving attitudes towards both recipients and welfare policy’
  - Reducing the stigma of means- testing
  - Life-cycle redistribution.
  
- We look at expanding coverage and at ‘making reciprocity visible’ at individual and collective models.

### (3) A revived contributory principle?

- IPPR has proposed a repayable earnings related element in JSA (Cooke 2011)
- What would this cost if it was funded by government?
- Depends a lot on how unemployed respond, but if takeup increases, could be very costly (up to 60% of all current JSA spend)
- We looked at a flat-rate top-up of £30 a week

Costs of earnings-related and £30 contributory top-up to JSA



### (3) A revived contributory principle?

- What labour market objectives would this further?
- A time-based reward for contribution rather than a financial reward may make more sense

### (3) A revived contributory principle?

- ‘Time-credit’: workers build up entitlement to period out of labour market for caring responsibilities, with financial support
- Has been used in Belgium since 2002
- A first step in this direction would be to build on current parental leave arrangements
- More flexible approach to caring responsibilities for workers with elderly or disabled relatives



### (3) A revived contributory principle?

- Low coverage of contributory benefits partly due to short working hours ( <17 hours a week)
- NI employer contributions system creates incentives to keep hours below contributions threshold: cost of £2bn p.a.
- Gradual abolition of this implicit subsidy to short-hours working
- But partial crediting-in of workers below threshold

- (3) A revived contributory principle
- Reinstating link between contributions and earnings at institutional level?
- Radical: binding commitment to using contributions for their original purposes
- Modest: introduce reporting of sustainability of National Insurance Fund and effect of policy decisions on Fund into FSNR (compare introduction of distributional impact assessments under coalition)

# Coda: What else needs to happen?

Important to recognise that this can't be done alone: need a renewal of Beveridge's 'basic assumptions' too:

- Family allowances - Meeting the costs of childcare and disability.
- Full employment - Including for those with disabilities and/or caring responsibilities.
- NHS - Recognition of unpaid caring work throughout society.