TOUCHSTONE

PAMPHLET#12

Making a Contribution

Social security for the future

William Beveridge's welfare state offered protection from poverty and guaranteed a minimum level of support for everyone who had made a contribution. But today's workers too often get 'nothing for something', paying into the system for little in return. This pamphlet shows that if the welfare state is to regain public support this needs to change. Revitalising National Insurance is one way that we could rebuild confidence in social security, as well as boosting employment rates and growth prospects for the longer-term.

Acknowledgements
Many thanks to Kate Green, Ruth Lister, Stuart White, Jonathan Portes, Paul Gregg, Fran Bennett, and Dan Finn and Graeme Cooke for helpful discussions about the ideas in this paper (although obviously they bear no responsibility for its content!). Particular thanks to Nicola Smith and Richard Exell for commissioning the work and extremely helpful comments.

About the authors
Kate Bell currently works mainly for the Child Poverty Action Group. She was previously Director of Policy at Gingerbread.

Declan Gaffney has worked in public policy and research since 1997, as an academic, as advisor to regional and national government and as a freelance policy consultant. He has written and published extensively on child poverty, public finance, social security and labour markets.

Touchstone Extras
These online pamphlets are designed to look in detail at specific areas of current policy debate. Touchstone Extra publications are not statements of TUC policy but instead are designed, like the wider Touchstone Pamphlets series, to inform and stimulate debate. The full series can be downloaded at **www.tuc.org.uk/touchstonepamphlets**

TUC

TOUCH STONE

Making a Contribution

Social security for the future

Contents

Foreword

by Brendan Barber, TUC General Secretary

In this skilfully researched and detailed report, Kate Bell and Declan Gaffney address one of the key strategic policy issues of our time: how to regain public support for a redistributive welfare state. Their case for revitalising National Insurance should be required reading for progressive policy makers, who should note that National Insurance is not just politically important: this new analysis shows that strengthened contributory benefits could also help this country to address labour market and demographic challenges that threaten all attempts to return to prosperity.

Opinion polls show British people increasingly likely to agree that welfare levels should be reduced. Why has this happened? Part of the story is the harsh and stigmatising language that is used to describe benefit claimants as a matter of course. Unbalanced television programmes and newspaper headlines with constant references to "benefit cheats" have made a difference, leaving us in a position where charities are rightly concerned about hate crimes against disabled people rising in response to these stories.

But the crisis in support for the welfare state has deeper roots than this. In the recent recession, many people who needed benefits for the first time found that they did not qualify or that the benefits were so low they hardly seemed worth claiming. People who had thought their National Insurance contributions were building up a fund they could draw on were disillusioned, and as the government further reduces contributory benefits, public disappointment state will continue.

What this pamphlet calls the "nothing for something" welfare state is the result of a generation of successive cuts in National Insurance benefits, which have been accompanied by rises in National Insurance contributions. A third of a century ago, a worker would typically pay 6.5 per cent of their earnings in contributions and in return receive benefits that could include an earnings-related supplement and extra payments for dependent children and adults, as well as access to a system of reduced benefits for workers with an incomplete contributions record. Today, most of those enhancements have been lost, the real terms value of benefits has plummeted and the contributions rate has nearly doubled to 12 per cent.

A strategy for reviving support for social security for everyone must tackle this imbalance. Workers will support a generous welfare state that pays more to those who need it – but part of the deal must involve a guarantee of security for everyone.

Executive summary

"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)

One of the pillars of the social security system designed by William Beveridge was a 'contributory principle': you had to pay National Insurance contributions to get most benefits.

This principle is very relevant to today's debate about social security. Many people believe that the system now promotes a 'something for nothing' culture and encourages worklessness. At the same time, they suspect that it fails to provide sufficiently for those who have contributed.

Some of this criticism is based on simple misunderstandings. At the same time as support for benefits has decreased, the social security system has demanded more of claimants and rates of benefit receipt have fallen substantially.

Some of the criticisms are mistaken, but that does not prevent social security from facing a crisis of public confidence. The problem, we believe, is not so much that the system offers something in return for nothing, but that it offers virtually nothing in return for something: the National Insurance contributions paid by the great majority of working people.

This report addresses these misunderstandings and mistakes.

Successive governments have tightened the eligibility conditions for contributory benefits. At the same time, increased labour market flexibility means that more and more people find they have not paid enough National Insurance contributions – and the people who are most likely to be in this position are those most likely to need the benefits (for example, those with lower skills or in insecure jobs who are more likely to experience unemployment).

For a generation, governments have used higher National Insurance contributions to keep income tax rates down. This has had little to do with the purposes they are officially earmarked for, and the credibility of the contributory principle has been undermined. (This has also made the combined tax and National Insurance system less progressive.) Thirty years of holding down benefit rates has reduced their value to workers: most people see little in return for their social security contributions.

Could contributory benefits be the basis for a revived social security system? Not by themselves; no functioning social security system can rely on just one principle, and reciprocity has to be balanced with solidarity – the recognition and meeting of need. As Beveridge always stressed, contribution-based benefits that provide against particular contingencies will not necessarily protect against poverty or enable people to manage additional costs associated with, for example, long-term disability and bringing up children.

We also caution against any assumption that a stronger contributory system could on its own resolve the problem of public confidence. The long-term decline in the real value of out-of-work benefits and huge differences in the exposure to risks between income levels has led to a situation where benefits are seen as being 'for the poor' rather than part of a system of social protection for everyone. Importantly, this means that responses to the credibility shortfall, which turn on making benefits more difficult to access, risk being self-defeating, confirming public mistrust while doing little to allay it. The negative case for a revived contributory principle – attacking 'something for nothing' – is far less effective than is often realised at building support for the social security system.

There is, however, a positive case for the contributory principle, which turns on two key pragmatic arguments. The first is that raising the perceived value of contributions for the great majority of working people could help reduce the sense that social security is primarily 'for the poor'. This would partly be a matter of making the existing relationship between contribution and entitlement clearer. But it would also involve building contributions-based entitlements to enable people better to manage widespread contingencies that were not envisaged at the time of the Beveridge Report.

The second argument in the positive case lies in the superior labour market performance of European countries with insurance-based social security systems over recent years. This represents a striking reversal of trends during the 1980s and 90s, when it was widely accepted that the English-speaking countries' combination of weak labour market regulation and residualised social security delivered higher employment than 'sclerotic' European welfare states.

The positive case for a renewed focus on contribution is supported by the clear advantages of contributory benefits compared with means testing and private insurance. Compared to means-tested benefits, the contributory principle may increase the willingness among the public to pay for social security and decrease the stigma of claiming. Compared to private insurance, contributory social insurance systems pool risk more widely, avoid unfair outcomes for those who face particularly high risks, can better deal with uncertainty, and do not have the problems associated with policing 'genuine' unemployment that may arise with private systems.

How could these advantages best be realised? We suggest increasing the salience of contributions by giving the National Insurance Fund a more prominent role in the presentation of fiscal policy, possibly with binding commitments on the application of funds. We also consider options to increase the returns to contributions. We argue that a contributory approach could provide invaluable help in managing the trade-off between work and other uses of time such as parental responsibilities, caring and training, allowing more time to be spent on these activities while maintaining attachment to the labour market. Balancing these two objectives is, we believe, one of the key tasks facing social security in the perspective of rapid population ageing. We also consider options for earnings or contributions-based top-ups for unemployment benefits.

Finally we look at how the coverage of contributions-based benefits could be increased by both changes to contributions rules and improved labour market performance. We recommend crediting in on a partial basis those who are currently earning below the Lower Earnings Limit. This should be accompanied by increasing contributions from employers for short-hours' jobs. The aim of these proposals is not just to extend coverage but to offset excessive incentives on employers to offer lower working hours, which we believe are no longer affordable in the light of coming demographic pressures (which will require efforts to increase both levels of employment participation and hours worked by those of working age).

These proposals are intended to stimulate further debate on how a renewed focus on contribution could help in meeting the enormous challenges faced by the social security system. But, while we believe we can and should demand more of social security in terms of building a stronger sense of credible reciprocity, we should not demand too much.

Social security cannot achieve greater social reciprocity on its own. For that, it needs to be embedded in a series of wider changes in labour markets and society. These should include:

- a revival of the macro-economic policy focus on full employment on which Beveridge laid such emphasis
- the revival of a job guarantee scheme along the lines of the Future Jobs Fund
- a disability employment strategy
- measures to address the gendered pattern of employment
- system to formalise the rights of the most vulnerable workers.

1. Social security and the contributory principle

This chapter outlines the key functions of social security as providing insurance and savings, preventing poverty, meeting additional costs, and helping the labour market to function. It also presents a brief sketch of the Beveridge system established in 1945 and how it has been adapted over time.

Within the social security system, the contributory principle has been particularly associated with insurance models and seeks to embed a principle of reciprocity, or 'something for something', into the system. However, this sits alongside a complementary value of solidarity, or recognising and meeting need. These principles influence both the design of social security and the other parts of the welfare state that sit alongside it.

The functions of social security

Why bother having a system of social security? The social security system is presently under constant attack, with a recent report from the centre-right think tank Policy Exchange arguing that:

> The welfare state was set up to help those in genuine need. Over the past 65 years that founding principle has been diminished and welfare dependency has grown. We now find ourselves in a situation where large numbers of those claiming benefit are doing so not out of necessity but because they believe it's a fundamental right to take from the state.[1]

But there are many key roles that social security plays alongside that of meeting need, which we set out below.

Insurance and savings

One key role for the social security system has been to ensure that individuals are protected from key risks, in particular unemployment and disability, and to enable people to save. It is this function of social security that has been most strongly associated with the contributory principle, and this model of social security that was the core of the Beveridge Report.

In the insurance model of social security, individuals make (usually compulsory) contributions to a fund that pays for benefits in the event of certain contingencies, classically unemployment, sickness and disability. In practice, the insurance model goes beyond pure 'insurance' functions to support planned contingencies such as childbirth and retirement, in effect combining savings and insurance functions: for this reason we refer to it as the savings/insurance model. As well as insuring those who pay in against risks it also provides them with the opportunity to save for significant life changes.

A limit to the savings/insurance model is that one of the main risks to be managed – unemployment – has historically been marked by strong cyclical and structural components. Insurance applies more easily to 'frictional' unemployment (a necessary feature of any labour market as people move between jobs); but in situations where the risk of unemployment is systemic (demand-deficient unemployment) or concentrated in particular occupations, industries or regions (structural unemployment) the model can eventually break down.[2]

Meeting additional costs

The social security system has always attempted to meet additional costs of living where society has a collective interest in doing so. These include the costs of children (through family allowances and then Child Benefit) and of disability (through the Disability Living Allowance). These benefits are generally provided universally to those who experience these costs.

Protecting against poverty

A key function of social security is to protect against poverty, and the 'safety net' function of social security is to ensure that no one falls into destitution – albeit that current benefit levels provide incomes far lower than most recognised minimum income standards.[3] But any contributory system excludes those who, for whatever reason, have failed to make contributions. Therefore a system that sees poverty prevention as a central aim must make other provision here.

Labour market functioning

Beveridge's system of National Insurance took full employment as a key assumption, with the primary responsibility for this assumed to be performed by macro-economic policy.[4] Subsequently, 'active labour market policies' have seen a key role for social security systems in ensuring that the supply side of the labour market functions efficiently, promoting job search, and ensuring, primarily through the provision of in-work earnings supplements, that there are sufficient economic incentives to enter the labour market.

In meeting these functions the social security system balances two values. The first we might call solidarity – identifying and helping those in need. This is recognised both through benefits that directly prevent poverty, including for those who have not made contributions, and through the structure of the insurance system. While this system relates entitlements to prior contributions, it ignores differences in the risks that individuals face, giving the system a redistributionary aspect that is absent in private insurance. As Beveridge put it, 'it has been found to accord best with the sentiments of the British people that in insurance organised by the community by use of compulsory power, *each individual should stand in on the same terms; none should claim to pay less because he is healthier or has more regular employment'* [our italics].[5]

The second value is reciprocity – the idea that there should be a link between what you put into the system and what you are able to take out of it. This value is inherent in contributory systems of social security, as we discuss below.

It is important to recognise that the values of reciprocity and solidarity are complementary. For example, as Beveridge realised, comprehensive insurance for interruptions to earnings for families of different sizes required that benefits also be available during employment.

> If children's allowances are given only when earnings are interrupted and are not given during earning also, two evils are unavoidable. First, a substantial measure of acute want will remain among the lower paid workers as the accompaniment of large families. Second, in all such cases, income will be greater during unemployment or other interruptions of work than during work.[6]

The 'universalism' of the Beveridge system, which of course also included universal healthcare free at the point of delivery, was not just an expression of solidarity but an essential underpinning of the savings/insurance model. Universal support would ensure that those out of work did not receive more support with the costs of children or healthcare than those in employment, preventing 'poverty traps' whereby families find themselves better off out of work, and maintaining public support for the overall insurance system. We discuss this system and how it fared over time further below.

The 'Beveridge system'

The 'Beveridge system' originated from the 1942 Beveridge Report on *Social Insurance and Allied Services.* Prior to Beveridge, social security had been inconsistent, often insufficient and only covered a minority of the population, leaving many to the mercy of stigmatising and inadequate assistance programmes inherited from the Victorian period. Beveridge's aim was to establish a single system that would provide the great majority of the population with coverage against the risks of sickness, disability, unemployment and inadequate retirement income, banishing the giant of 'Want' and the stigma associated with means testing. Beveridge wanted to maintain a tight link between contribution and entitlement while vastly expanding the coverage of social security. His achievement was to show that these aims could be combined.

The keystone of his proposal was a single system of compulsory National Insurance with flat-rate contributions matched by contributions from employers and government. Nobody in employment, however wealthy, would be exempt from contributing, and everyone who contributed would have the same entitlements. 'Housewives' would be covered by their husbands' contributions, a measure that, while controversial even at the time, effectively doubled the population coverage of the insurance system.

Beveridge always stressed that three other things were needed to make this near-universal insurance system work: a National Health Service, free to all at the point of delivery; government commitment to full employment; and family allowances, paid at a flat rate without regard to income. Full employment, seen at the time as an unemployment rate no higher than 4 per cent, was needed to maintain a stable balance between contributions paid in and benefits paid out. Family allowances were needed because insurance alone would not eliminate Want arising from the mismatch between individual earnings and families' basic needs, and allowances had to be paid at a single rate (according to Beveridge) because if they were means tested this would create poverty traps for low-wage workers with large families (i.e. some might be better off out of work).

The combination of National Insurance and universalism was the distinctive feature of the Beveridge system. This explains how the Beveridge system can have different connotations depending on what it is being compared to: for example, in Europe, where insurance-based systems were the norm, it was the universalist elements (family allowances and the NHS) that made the Beveridge system distinctive, while in the English-speaking world it was the link between contribution and entitlement that contrasted with systems more reliant on means testing (including the UK system as it later developed). The slogan 'Back to Beveridge' can thus be understood in very different ways, although hostility to means testing should always be implicit.

What happened to Beveridge? Problems and policy responses

Although Beveridge's Report provided the basis for the post-war welfare state, a number of problems inherent in his system required significant departures from his principles. Below we highlight these problems and how policy changes attempted to address them.

Income shortfalls and the growth of means testing

Beveridge expected means testing to play a marginal role once his system was fully mature. Strong distaste for means testing was very widely shared at the time, based in part on the experiences of widespread unemployment during the 1930s. But the assumption that a floor provided by flat-rate insurance benefits and family allowances would banish Want turned out to be unrealistic, at least at the levels at which benefits were set. Many more households than was envisaged at the start of the scheme, including many with employed members, found themselves needing to supplement the flat-rate family allowance with means-tested benefits. Growth in the proportion of expenditure on means-tested benefits really took off in the 1970s and particularly the 1980s, when the gaps in the system left by Beveridge (and discussed below) began to require plugging, while political decisions led to contributory benefits being cut.

Means-tested benefits were the poor relative in Beveridge's system, expected to decline in importance as the insurance-based system extended its reach. Without the strong rationale that Beveridge had forged for the insurance-based and universalist elements of the system, these benefits were easily seen as representing a systemic failure, and their legitimacy as a form of social support was never really established. Moreover the disapproval of means testing was easily extended to those who relied on means-tested benefits, with effects that are all too visible today.

The enormous expansion of tax credits under New Labour can also be seen as an extension of means testing, although the wide coverage of tax credits and the fact that they were available to in-work as well as out-of-work families also gives some justification to Labour's insistence that they embodied a principle of 'progressive universalism'. The current government's Universal Credit aims to blur the distinction between in- and out-of-work benefits further, combining out-of-work and in-work support for adults as well as children into a single payment. However, by cutting back on support higher up the income distribution – the 'universalism' in 'progressive universalism' – the current government has signalled a rejection of Labour's attempt to overcome the problems associated with means testing.

Inclusion versus generosity

Beveridge's flat-rate contributions principle proved inadequate to the financing of the insurance-based elements in the system at a realistic level. At a time when the majority of industrial workers paid no income tax, the flat-rate contribution with matching employer and government contributions was a mechanism for ensuring 'ownership' of benefits for the great majority. However, the counterpart to this inclusiveness was very low payment rates, which offered little advantage over means-tested benefits.

The Social Security Select Committee report on the contributory system in 2000 states that:

> In the 1960s and 1970s, the limits of flat rate benefits were recognised with the gradual introduction of earnings-related benefits into both short-term benefits, and most importantly, long-term benefits through the establishment of the State Earnings Related Pension scheme (SERPS).[7]

However these changes were short lived, with the 1980 Social Security Act abolishing the earnings-related supplements on short-term benefits, and reducing the value of SERPS. These cuts to contributory benefits were followed by the replacement of Invalidity Benefit with Incapacity Benefit and a tighter medical test in 1995, and in 1996 the replacement of the 12-month Unemployment Benefit with contributory Jobseekers Allowance, payable for six months only. In 2007, Incapacity Benefit itself was replaced with Employment and Support Allowance (ESA), with the government now planning to limit access to the contributory element to 12 months for those who must undertake 'work-related activity' while claiming the benefit.

Gaps in coverage

By bringing non-working mothers within the system through their husband's contributions, Beveridge had hugely extended the sweep of social insurance, but this still left significant gaps: notably for single parents or carers without a contributions record and those with early-onset disabilities, groups that were given a decidedly cursory treatment in his report (although Beveridge had wanted to include carers). These gaps in insurance coverage proved over time to be anything but marginal, further increasing reliance on means-tested benefits.

Rises in divorce and separation between the late 1970s and early 1990s saw many lone parents unable to access the contributory system, and left to rely on means-tested benefits. In 1971, 8 per cent of households were headed by a single parent, a figure that rose to 24 per cent in 1998 (from when it has remained relatively stable, standing at 23 per cent today).[8] The Social Security Select Committee report points to expenditure on Supplementary Benefit and its successor, Income Support, rising from £1bn in 1980–81 to £4bn in 1998–99, and although this cannot entirely be attributed to increases in single parenthood this rise clearly demonstrates the failure of the Beveridge system to do away with the need for means testing.

The Committee also highlighted the changing nature of disability and caring over time, contingencies for which the Beveridge system had also failed to provide adequately. These changes included fewer disabled people living in institutions, and longer life expectancies for those with severe disabilities, although many disabled people continued to have limited work records:

> Invalidity Benefit caseloads grew steadily until 1995 reaching 1.8 million, due mainly to people remaining on benefits longer, rather than a higher number of new claims. These changes increased the need for carers, many of whom found their own ability to work and pay National Insurance contributions reduced as a result.[9]

Non-contributory and non-means-tested benefits for disabled people in the form of Attendance Allowance and Mobility Allowance were introduced in the 1970s, and combined in 1992 to form the Disability Living Allowance. Invalid Care Allowance was introduced in 1975, and replaced with the Carer's Allowance in 2003. 'Crediting-in' – treating people without contributions as if they had in fact paid contributions – was introduced for disabled children in the 1970s, giving them access to contributory incapacity benefits in adulthood – a policy to be reversed in the current Welfare Reform Bill.

The evolution of expenditure, excluding state pensions but including other benefits for pensioners such as Attendance Allowance, is shown in Table 1 below. Notable developments include:

- The growth from the 1970s of Housing Benefit (and later Council Tax Benefit), a case of social security expenditure substituting for direct subsidies to capital and rents.
- The rise in disability benefits from 3 per cent to 15 per cent of expenditure; again, some of this was substituting for spending on institutional care.
- The decline since the 1980s in unemployment benefit and sickness benefits. This was driven partly by the decision of the first Thatcher government to uprate benefits with prices rather than earnings and to eliminate the earnings-related supplements introduced by Labour in the 1960s, but also by the tightening of contributions conditions by both Conservative and Labour governments.
- The rise in tax credits under Labour, accounting for some 19 per cent of all expenditure by 2008/9. Although the rise is somewhat overstated due to the transfer of child premia in income support to child tax credit, this shift in the composition of social security spending represents one of the more striking changes since 1948.

Whether the 'progressive universalism' of tax credits should be seen as a return to Beveridgean principles is open to debate: certainly Labour showed little interest in reversing the decline of the contributory elements in the system. The exception was the expansion of maternity benefits (Statutory Maternity Pay and Maternity Allowance); ironically, because these benefits are paid by employers and recovered from the government, this rare example of the contributory principle being strengthened rather than weakened will have had little effect on public attitudes to the social security system.

Table 1: The composition of social security expenditure, 1948/9 to 2008/9

Benefit	1948/9	1958/9	1968/9	1978/9	1988/9	1998/9	2008/9
Income Support/Pension Credit	29.9	23.2	28.5	20.0	28.0	20.1	15.8
Child Benefit	28.7	22.1	19.8	22.8	16.7	12.5	10.9
Sickness benefits (including industrial injuries and Statutory Sick Pay)	20.8	23.5	23.2	23.8	19.5	15.4	8.1
Bereavements benefits	7.5	10.1	10.2	6.5	3.1	1.7	0.7
Unemployment Benefit/JSA	7.3	8.7	8.2	8.1	4.1	6.1	2.8
Other small benefits	5.8	12.5	10.1	0.0	0.0	0.0	0.0
Disability Living Allowance/ Attendance Allowance	0.0	0.0	0.0	2.8	6.2	13.9	14.7
Housing Benefit/ Council Tax Benefit	0.0	0.0	0.0	14.2	18.8	23.1	20.6
Maternity benefits (including Statutory Maternity Pay)	0.0	0.0	0.0	1.6	1.0	1.0	2.2
Payments to pensioners (Winter Fuel etc.)	0.0	0.0	0.0	0.0	0.0	0.3	3.1
Social Fund	0.0	0.0	0.0	0.0	0.6	0.3	0.6
Carers Allowance	0.0	0.0	0.0	0.1	0.6	1.3	1.3
Tax Credits/Family Credit	0.0	0.0	0.0	0.3	1.5	4.3	19.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditure as percentage GVA	2.7	3.2	4.1	5.3	6.5	7.4	8.1

Source: DWP Benefit Expenditure Tables 2011 and HMRC Working Tax Credits Statistics, various years

Social security systems must fulfil a range of functions, including insurance, poverty relief, meeting additional costs and ensuring labour market functioning. In doing so, they seek to balance the values of reciprocity – 'something for something' – with that of solidarity – recognising and meeting need. The Beveridge system set out to achieve this, with a system that was based on contribution, but which ensured that no one had to pay more because of facing a higher risk of illness or unemployment. However, the failures of the Beveridge scheme to set benefits at a level that would prevent Want, or to sufficiently deal with the needs of those who could not contribute, including lone parents, disabled people and carers, led to significant departures from his scheme, which was unable to abolish the need for means-tested benefits.

In the next chapter we examine the problems faced today by the social security system we have inherited and adapted from Beveridge.

2. *What's wrong with social security?*

Why should we look for a revival of the contributory principle now? Proposals for reform of the social security system usually suggest that it is failing to meet some goal – if not, why the need for reform? In this chapter we identify three major problems that might be addressed by a revival of the contributory principle.

First, our current system of social security faces a crisis of confidence. Although it is true that much of this lack of confidence is fuelled by wildly inaccurate claims about out-of-work benefit receipt, the ease with which inaccuracies are propagated and their wide acceptance indicates that there is a fragility in public support for some aspects of the system that needs to be addressed.

Second, the system at present fails to provide true social security for many. Many people do not claim the contributory benefits to which they are entitled, and many are not building up sufficient contributions to claim in the future. A focus on the poorest, and the imposition of time limits on access to contributory benefits, has led to many people on modest incomes with contributions records being excluded from support, while labour market flexibility has led to many working people falling through the contributions net. Positive developments in education and healthcare have also reduced the share of the population covered by contributory benefits. Working lives on average start later than in Beveridge's day, increasing the number of adults who lack full contributions records. Increases in life expectancy for people with severe long-term disabilities also mean that there are more people who have never worked or have limited contributions records.

Third, demographic changes will increasingly place greater pressures on future public expenditure. Changes in the relative size of the working to the non-working population due to population ageing mean that we need to think about how the balance of paying in and paying out over the course of working lives will change over time. Increases in labour market participation by women, older workers and disabled people could have a major impact on the future balance between workers and pensioners. Reform of social security may not be the main way of achieving these objectives, but it will certainly have a role to play.

A crisis of confidence?

Much of the interest in the contributory principle comes from the idea that our current social security system is facing a crisis of public confidence and credibility. Certainly statements to the effect that 'there are too many people on benefits' or that Britain is suffering from a 'culture of dependency' are a staple of media commentary, although this is hardly a new phenomenon. We discuss below the extent to which these views are justified by the evidence. But regardless of how well-founded they may be, there are signs that public support for those on benefits, and in particular for redistribution via the tax and benefit system, has declined in recent years. While the proportion of people who believe that the income gap is too large has remained relatively constant between 1987 and 2009, there has been a strong decline in support for the proposition that government should spend more on benefits. This can be seen in Table 2.

Table 2: Attitudes to inequality and redistribution, 1987 to 2009

	1987	1991	1995	1999	2002	2004	2006	2009
Percentage saying the income gap is too large	79	79	87	81	82	73	76	78
Percentage agree government should redistribute income	45	48	47	36	39	32	34	36
Percentage agree government should spend more on benefits	55	58	50	40	44	36	35	27

Source: Rowlingson K *et al*, 'Do we still care about inequality?' in Alison Park *et al* (eds), *2010 British Social Attitudes: The 27th report: Exploring Labour's Legacy.* London: National Centre for Social Research, pp1–27.

Other polling also suggests a hardening of attitudes. For example, the centre-right think tank Policy Exchange, drawing on YouGov polling, argues that:

> There is overwhelming support for workfare. By a margin of six to one (80 per cent-13 per cent), people agree that "people who have been out of work for 12 months or more, who are physically and mentally capable of undertaking a job, should be required to do community work in return for their state benefits." The notion of 'something for something' is very strong.[10]

It is often argued that these attitudes reflect the fact that the public views the current social security system as failing to meet an ingrained principle of reciprocity. Drawing on psychological research that suggests that most people are "conditional co-operators, willing to do their bit in co-operative ventures to which they belong provided they are assured that others will also make a reasonable contribution",[11] it is suggested that the system is failing to convince the public that others will fulfil their part of the bargain. The Institute for Public Policy Research's proposal for National Salary Insurance argues that:

> Over the last few decades, support for the welfare state has been undermined by a pincer movement of attacks. It has come to be seen both to reward people who do the wrong thing and to let down those who do the right thing. In short, it is thought to be not demanding enough of people who don't work and not protective enough of those who do.[12]

Similarly, Shadow Secretary of State for Work and Pensions, Liam Byrne, argued at the Labour Party conference 2011, that "many people on the doorstep at the last election, felt that too often we were for shirkers not workers" and that a Labour government would 'renew' the focus on ensuring that people take up a job if they can.[13]

Beliefs that the current system does not enforce reciprocity might be based on two different ideas about how it is failing. First, the public could believe that the rules of the system are fair, but that too many people are getting round them. Second, the public might believe that the rules themselves aren't fair, and that it is the system itself that fails to ensure that all play their part.

To what extent are these perceptions based on reality? Below we briefly examine the evidence on benefit fraud, before looking at who claims benefit, why and for how long. The indications are that the apparent hardening of public opinion on benefits has little to do with what has been happening to benefit receipt.

Benefit fraud

While public discussion, often with the support of politicians, places a significant focus on benefit fraud, the amount of fraud has in fact fallen over the past decade. Analysis of Department of Work and Pensions benefits shows that the amount of cash lost to fraud halved over the past decade, falling from £2.2bn in 2000–01 to £1bn in 2009–10.[14] As Tim Horton and James Gregory showed in *The Solidarity Society,* concern about benefit fraud shows little relationship to its incidence, with the number of people agreeing that 'large numbers of people falsely claim benefits' rising at the same time as fraud and error levels for Income Support and Jobseeker's Allowance (JSA) steadily decreased.[15]

The survey results indicating a lack of fit between concern about fraud and its scale are echoed in the striking statistic that only 1.3 per cent of the 256,000 calls to the National Benefit Fraud Hotline in 2009/10 resulted in a sanction being imposed for fraud. A further 3 per cent resulted in the detection of error in payments. This means that 96 per cent of calls are either malicious or based on misreading of claimants' circumstances.[16]

Who is currently claiming benefits?

One reason for declining trust in social security is the widespread view that the system allows claims from people who could or should be contributing through work but don't. Again, the facts are somewhat different. There are 5.7 million people of working age in receipt of a Department of Work and Pensions benefit:[17]

- Of these, people with severe impairments (those receiving Disability Living Allowance) make up the largest group – over 30 per cent of all claims.
- Claimants of carers' allowance (people who are caring for someone receiving Disability Living Allowance or the corresponding benefit for retired people) make up a further 9 per cent.
- This means that nearly 40 per cent of all benefit claims are associated with disability at the severe end of the spectrum of impairment: people with a work-limiting condition, but who are not receiving DLA, make up 21 per cent of claims

- Lone parents make up only 11 per cent of benefit claims – and again numbers have been falling.

Twenty-three per cent of the benefits caseload (not including lone parents) are on JSA. The claimant unemployed numbers have grown 68 per cent since 2008, but the rise is clearly related to the recession. Further details on this analysis are available in this web annex to this report, which can be viewed here: **www.tuc.org.uk/social/tuc-20945-f0.cfm**

Public anxiety about benefits is often focussed on long-term claims, and this may lie behind the frequent accusation that social security fosters 'worklessness', in the sense of long-term voluntary detachment from the labour market. But if we look at the nearly 2.3 million claims that had been running for five years or more as of February 2011, disability and caring together account[18] for a clear majority (68 per cent). Lone parents account for only 5 per cent of long-term claims, and as we are concerned with those who might be expected to contribute, we should note that about half of these parents have children under the age of five and are not expected to work. Most of the rest are Incapacity Benefit claims that do not involve Disability Living Allowance (22 per cent).

In other words, the great majority of those who are not 'putting in' to the system are in fact those who are not expected to be doing so: disabled people (some of whom, as it happens, are in employment), lone parents with children under five, and carers.

A lack of public support

Negative public attitudes to benefits might be based on beliefs that people are cheating the system, or that the system demands too little of claimants. But a major decline in support for benefits has taken place at a time when fraud has been decreasing, conditionality increasing, and benefit caseloads falling. The explanation for the shift in public attitudes must lie elsewhere.

It is possible that the lack of a visible institutional link between contributions and entitlement is playing a role if this encourages people to assume, inaccurately, that benefits represent 'something for nothing'. This would make the case for making the link explicit in terms of entitlement conditions in order to recalibrate public perceptions.

However there is a more intuitive explanation: if people believe that the benefits system is primarily supporting people who should be putting in rather than taking out, we can hardly ignore the fact that this is what they have been told, with ever-increasing insistence, by politicians of all parties, including some of those who want to make the case for a revived contributory principle. Citizens do not in general have detailed knowledge of the benefits system or of those who rely on it: their views are based on inferences from partial information, in which the statements of politicians loom large simply because what politicians say about benefits commands widespread media coverage. Reform of the benefits system has been promoted as the solution to an alleged problem of non-reciprocity ('benefit scroungers') by successive UK governments since at least the early 1990's.

Why should this political framing of social security resonate with the public? Part of the explanation may lie in the very importance people attach to reciprocity in a context of limited information. The extent to which people who are 'taking out' have 'put in' in the past and will again in the future is not generally observable. Reciprocity is not something which is manifested at a single point in time, but through a series of transactions over time.[19] But in the case of social security only one stage in this process- receipt of benefits- is directly observed by outsiders, who have limited knowledge of prior contributions or of the eligibility conditions that claimants have already met, and zero knowledge of how claimants intend to act in the future.

This leads to a risk that claimants in general will be inferred never to reciprocate, even if most claims are relatively short-term in duration (as is in fact the case). The reason for expecting this outcome is that the evidence from social science and economics indicates that trust is a scarce good which is not handed out indiscriminately. Thus it is up to claimants and institutions to demonstrate that norms of reciprocity are not being breached, a requirement that it may be virtually impossible to meet.

Add to this the fact that stories about breaches of reciprocity are more memorable, and therefore more likely to be widely propagated, than stories about compliance with norms,[20] and it becomes easier to understand why 'credible reciprocity' in social security is difficult to achieve.[21]

This leads us to consider the grim conclusion that in the absence of the sort of social mechanisms that can build credibility, suspicion of claimants should be the expected default setting for public attitudes towards social security. However, this conclusion depends crucially on the extent to which non-claimants regard or fail to regard social security as being there for themselves as well as for current claimants. The 'framing' of benefits as being for 'others' – the 'poor', the 'underclass' – would be expected to have a significant effect on public confidence, and to make low public trust in the system more likely. The low value of benefits, and the decline in their real value over recent decades, makes this sort of framing much more plausible. For these reasons, public lack of confidence is virtually locked into the UK social security system.

Given these considerations, we have to question any strategy that aims to 'make reciprocity manifest' through further tightening of eligibility and conditionality. There is no evidence that previous moves in this direction in the UK have boosted credibility, while evidence from the United States indicates that aggressive reform served to strengthen public mistrust of the system and those who rely on it.

Whatever the factors driving public perceptions, when it comes to looking at employment and economic activity, the image of long-term worklessness that dominates current debate is misplaced. Far more important, we would suggest, is the evidence that many people find themselves in precarious labour market positions that may mean they move frequently between out-of-work benefits and employment and fail to build up National Insurance contributions. This represents a real threat to any contributions-based approach to future reform.

Contribution and coverage

Much of the debate around social security seems to be about people 'taking out': there has been less focus on 'putting in'. Unemployment offers the most salient example. The UK has an (admittedly ungenerous) contributory unemployment benefit, the contributions-based JSA. What is striking is just how little reach that benefit has among the claimant unemployed, only 16 per cent of whom were receiving contributions-based support in February 2011, the great majority instead receiving income-based JSA.[22]

Table 3: Proportion of unemployed people receiving benefits before 2008 by family of nations (per cent)

Family of nations	Country	Contributory	Non-contributory	Total
CWE	Austria	94.1	0.0	94.1
	France	47.9	11.8	59.7
	Germany	30.0	69.0	99.0
	Netherlands	67.9	2.3	70.2
Nordic	Denmark	53.0	14.4	67.4
	Finland	54.9	11.9	66.8
	Norway	90.0	0.0	90.0
	Sweden	66.0	0.0	66.0
Anglo	Australia	0.0	68.5	68.5
	Canada	44.4	0.3	44.7
	New Zealand	0.0	37.0	37.0
	United States	37.5	0.0	37.5
	UK	**9.2**	**42.2**	**51.4**

Sources: World Social Security Report 2010 Table 22a; DWP 5 per cent sample data (UK)
Note: For an explanation of the 'family of nations' categorisation, see 'The pressures of demography' below

Table 3 above shows how odd the UK now looks in international comparison.[23] Only 9 per cent of the unemployed in 2008 were receiving the contributory benefit: the only countries in the sample with a lower figure are Australia and New Zealand – which do not have a contributory unemployment benefit.

This may in part be a reflection of the relatively short entitlement period for the contributory benefit in the UK (six months) but, even among claims that have been running for less than that, only about a quarter are contributions based. It would seem that two things are happening: large numbers of unemployed people with contributions records never make a claim for JSA; and a very large share of those who do make a claim do not have the contributions needed to qualify for the contributory benefit. Why?

The phenomenon of people not claiming JSA – if that is what is happening – is likely to be due to a combination of the very low replacement ratio for the benefit and low awareness that there is a contributory entitlement at all – the latter factor reinforced by the former.[24]

As for claimants not having the right contributions record, this must reflect one or more of the following factors: relatively low hours of work (17 hours at the National Minimum Wage are needed to bring workers within the system) or people starting working careers later or interruptions of employment or breaches of the minimum wage legislation or being young (which means people have recently started work or receive less than the adult minimum wage).

Hours of work

About 1.5 million part-time workers are currently below the Lower Earnings Limit (LEL) for National Insurance contributions. As we now have a National Minimum Wage this is more of a low-hours than a low-pay issue, and the incentives to work short hours – or to offer jobs with short hours – need to be considered in the light of impacts on National Insurance coverage.

Later career starts

Changes in the point at which people typically leave full-time education are likely to be playing an important role in reducing contributions-based entitlements. The Beveridge system was designed for a world in which working-class careers typically began at age 15 or 16. By 1992, 63 per cent of 16- to 17-year-olds were in full-time education, and by 2011 this had risen to 83 per cent.[25] Thus an increasing share of the working-age population will have no or incomplete contributions in their mid- to late twenties compared to earlier periods.

Disability

Another factor that needs to be mentioned, although we are unable to quantify its impact, is that life expectancy for people with some severe congenital or early-onset disabilities has increased since Beveridge's day. The 'youth rule' for Incapacity Benefit has meant that many young people who are disabled by the age of 19 have been 'credited in' to the National Insurance system, giving them access to the contributory benefit (although the government is seeking to abolish the 'youth rule' provision for sickness benefits). However many congenital and early-onset conditions are progressive, with the implication that some young people who did not meet the Incapacity Benefit criteria at age 19 will nonetheless be unable to build up a contributions record before their condition makes employment more difficult.

Contribution rules

Finally, it is worth noting that the complex contributions conditions for JSA are very tight by international standards, especially for workers with low earnings. Contributions conditions for Incapacity Benefit and its successor, Employment and Support Allowance (ESA), are also tight, and flows on to these benefits are dominated by means-tested rather than contributions-based claims.[26] The low coverage of contributory benefits in the UK would therefore seem to be due to mutually reinforcing aspects of flexible labour markets and eligibility conditions.

The pressures of demography

The UK is entering a period of concentrated demographic change that will see the retirement of the 'baby boom' generation. This will inevitably lead to a shift in the ratio between workers and non-workers; at present the ratio between those under 15 and over 65 and workers is 0.89. On current patterns of employment by age and gender, this will rise to 1.15 (25 per cent) by 2031 and 1.18 (by 32 per cent) by 2051.[27]

But the scale of this shift will depend also on what happens to working-age employment rates; higher employment rates would reduce the ratio. This points to a new challenge for the social security system: while much reform over recent decades has been about improving the incentives people face at a particular point in time, we now need to consider how the system can help raise the value of work across the lifecycle.

In order to show the UK's comparative position, we have used data for 14 countries (see the web annex **www.tuc.org.uk/social/tuc-20947-f0.cfm** for more detail on this). Compared to most other European welfare states, labour market participation in the UK (like most of the other English-speaking countries) is falling behind. In the 'Continental West European' (CWE) countries (Austria, Belgium, France, Germany, Netherlands), it is higher for people aged 24–49. In the 'Nordic' countries (Denmark, Finland, Norway, Sweden), it is higher for all age groups except people aged 20–24.

Our calculations show that if the UK could achieve the labour market participation rates of some of our European neighbours, we could significantly reduce the growth in the dependency ratio that demographic change will bring: reaching economic activity rates by age and gender that compare with some of the higher performing countries in our sample could reduce the growth in the dependency ratio by around half (to just over 17 per cent) by 2041.

We would not want to attribute the superior performance of the CWE and Nordic welfare states solely to their social security systems. But the analysis does show that the claimed advantages of Anglo-style systems are a thing of the past and suggests that countries in these groups have been broadly successful in adapting to new labour market conditions without sacrificing the main features of their systems.

3. *What's so great about the contributory principle?*

The previous chapter discussed the problems that face our current social security system. We argued that there was a role for contributory benefits in addressing a crisis of confidence in the system, but that needed to be based on people seeing more in return for their own contributions, rather than a sense that contribution conditions are being used to police access to the system. We also suggested that reforms based on the contributory principle might help to address the challenge of population ageing, working to encourage greater employment participation, particularly by women, during working age.

Yet a strengthening of the contributory principle is not the only idea put forward for reform of the benefit system. The government's current reform of the system, which integrates in-work, and most out-of-work, benefits into a single Universal Credit, in fact extends means testing. And many others have made different proposals for how the savings/insurance functions of social security could be met by private provision: for example, in 2008 the Social Market Foundation set out the case for a broader range of private unemployment insurance products.[28] This chapter therefore draws out the advantages of contributory systems of benefits, both in meeting the challenges we set out above and in meeting other social goals. We first compare contributory provision with means-tested benefits, and then with insurance provided on an individualised, private basis.

Contributions vs means testing

Something for something

Since its inception, the contributory system has been seen as embedding the value of reciprocity in the benefits system – of ensuring that those who take out of the system also put something back in. As we discussed earlier, this value is widely seen as important; Horton and Bamfield found in 2009 that "perceptions of the extent to which benefit recipients make a reciprocal contribution is fundamental in driving attitudes towards both recipients and welfare policy".[29]

The extent to which paying National Insurance, as opposed to fulfilling conditions (for example being required to search for work or sign on every two weeks while on JSA) while receiving benefits, can be seen as 'making a reciprocal contribution' has not been directly tested in attitudes research. Small-scale qualitative research by

Alan Hedges in 2005 gives some more support to the idea that ‘paying in’ might be seen as making a contribution, finding that a key element of:

> … qualifying feature of the [welfare] contract in many people’s minds is whether a member has paid their dues. This doesn’t mean how much they’ve actually paid, but whether they’ve made a reasonable effort. If you’re ill, having children or genuinely unable to get work then it’s part of the deal that you get supported and aren’t expected to pay in while that’s happening. But many people would argue that if you’ve just opted out or haven’t bothered to get a job you haven’t kept your side of the bargain and therefore shouldn’t expect the rest of society to keep its side. In this view mutual entitlement implies mutual obligations.[30]

Further research would be needed to test the extent to which making contributions via National Insurance is seen as ‘keeping your side of the bargain’, and the chance therefore for a revival of the contributory principle to increase the public legitimacy of social security. As we suggest above, the lack of information that the public has about how or why someone has gained access to social security may mean that a revival of the contributory principle cannot meet these goals alone. However, we do think that this is a more promising route to increasing legitimacy than increases in conditionality (the conditions that are placed upon receipt of benefits, such as job search requirements), as such increases over the last decade, and the accompanying rises in employment rates, appear to have done little to address public scepticism about the legitimacy of benefit claims.

Strongly linked to the idea that a contributory system has greater public legitimacy is that that this leads to a greater willingness to countenance increases in contributory benefits, and the increased National Insurance contributions necessary to pay for them. John Hills’ 2004 paper on the contributory system points out that we have no very good evidence for this claim – although the popularity[31] of the increase in National Insurance contributions earmarked for the NHS in 2002 gives some support to the theory. Yet although pointing out that “contributions are not in reality earmarked and there is no truly separate National Insurance fund. If people are less unhappy about paying National Insurance than income tax, that is more a product of folk memory than of current reality”, Hills also makes the point that abolishing the contributory system would involve adding significantly to Income Tax – a political choice that few politicians are likely to be willing to take.

Citizenship and stigma

Whereas contributions-based models mean individuals are guaranteed access to benefits as a right (although not necessarily an unconditional one), ‘assistance’ or means-tested models involve the stigma of being asked to demonstrate need, and make claimants vulnerable to whatever conditions might be imposed on benefit receipt, and the discretion of administrators in enforcing these. Before the twentieth-century assistance models were associated with the loss of civil and political rights as well as social stigma,[32] and the distinction between benefits provided as of right as opposed to by discretion has a long history: in 1796 Pitt the Younger was arguing:

> Let us make relief in cases where there is a number of children a matter of right and honour instead of a ground of opprobrium and contempt, ...draw[ing] a proper line of distinction between those who are able to provide for themselves by

> their labour and those who after having enriched their country with a number of children have a claim of assistance for their support."[33]

Access to financial support as a matter of right rather than as a favour from the state has long been seen as a precondition of equal citizenship in unequal societies.[34]

As Richard Titmuss argued:

> One fundamental historical reason for the adoption of the [contributory] principle was the aim of making services available and accessible to the whole population in such ways as would not involved users in any humiliating loss of status, dignity of self-respect.[35]

But the stigma attached to means testing remains more than a historical phenomenon. Alan Hedges found that:

> Many people find 'claiming' intrusive or humiliating. It seems that you have to make out a case why you should get special treatment. That in itself makes people feel that they are being treated as 'different'. They have to provide 'private' information and lay themselves open to official scrutiny. The process can make them feel helpless or unvalued, and can introduce a sense of stigma.[36]

Individual incomes and saving incentives

Contributory benefits are non-means tested, and are based upon the contributions of individuals not households. As such they provide access to individual incomes for both partners within a couple, and therefore a measure of financial independence.[37] This also allows for, as Fran Bennett and Holly Sutherland put it, 'independence of action' – if one partner in a couple loses their job, the income of their working partner will not reduce their entitlement to a contributory benefit. The existence of benefits for an out-of-work partner can therefore help to reduce 'in-work poverty' – which has increased significantly for couples over the past ten years.[38]

The lack of an income or capital test within contributory benefits also encourages saving, or, as Beveridge put it, "encouragement for voluntary action by each individual to provide more than that minimum [provided by the state] for himself and his family". As households know that they will not lose benefits if they build up their own savings, there is no disincentive for them to save.

It is therefore of concern that the government's proposals to limit contributory ESA to a period of one year look likely to place many couples with a choice between one giving up work, or the other losing access to the benefit. In addition, Universal Credit proposals also look set to limit individual income protection, with a means test for household (rather than individual) income that will apply both in and out of work (compared to current rules, which ask out-of-work claimants to use their savings before accessing financial support, but allow claimants of in-work support to build up assets).[39]

Redistribution

Whereas a purely means-tested tax system would redistribute solely based on someone's financial resources, the contributory system redistributes primarily through the pooling of risk. This may promote the idea that the 'contingencies' we face involve not only our employment status but also the changes in earning power throughout our lifetimes; that 'interruptions to earnings' are caused not only by unemployment or by sickness but also by family responsibilities – including childcare and caring for sick or elderly relatives. John Hills again cites Titmuss in support of this idea:

> In Richard Titmuss's 1955 Seth lecture he described the public finances as being like Crewe junction, with traffic (transfers) in many directions, rather than like a simple terminus with one way one dimensional flows from rich to poor. There is thus much to be said for a system which conveys this idea.[40]

Contributory systems make it clearer that the social security system is not only a mechanism for distributing from rich to poor but is also one that helps people to spread their income over their lifetime, paying in when at work and taking out in periods of unemployment or sickness.

Social insurance vs a private/individual system

The above arguments make the case for contributory-based support over (and on top of) means-tested provision. There is also a strong case for such a system to be based on social over individual insurance, particularly insurance that is privately provided.

Risk pooling

One of the key arguments for social insurance is its ability to reduce the costs of insurance by pooling risk. The Commission on the Funding of Social Care recently made this point strongly when discussing the options for insurance against the risk of needing care in old age, showing that an individual self-insuring against the costs of social care in old age would have to save £600,000 compared to the £15,000 insurance premium they would pay with risk pooling in place.[41]

Fairness

However, private insurance-based systems also pool risk. Why is a social insurance system in which everybody (who pays contributions) is covered to be preferred over a system in which individuals choose to insure themselves with a range of private providers?

One major argument for social insurance over private insurance is that it enables those who experience high risks (whether of unemployment or sickness), due to the type of employment or to their own characteristics such as disability, to remain inside the system. Any system of private insurance that asked for contributions based on the level of insurance risk would be likely to exclude these 'high risk' groups, who are also likely to be those least likely to be able to pay these higher premia[42] – the Social Market Foundation's model for a system of private insurance allowed insurers to exclude some types of employer.[43]

As the political philosopher Stuart White points out, asking people to pay more because of risks they cannot control is unfair:

> In a free market, the one insurance you can't buy is insurance against being the sort of person with a low earnings capacity who has to buy expensive insurance (e.g., because of their relatively high risk of illness). By contrast, a social insurance system can be designed to mitigate some of the inequality between low income/high risk and high income/low risk would-be insurers.[44]

Social insurance systems allow for the expression of 'solidarity', and for the protection of those with higher risks: by ensuring everyone contributes they allow for us to collectively insure ourselves against risks to an extent that would not be available to all of us if we were to pursue individual insurance options.

Could this problem be addressed by regulation of the private insurance market? Evidence from the Pensions Commission suggests that cost of this regulation would be likely to mean that a heavily regulated system of private insurance for contingencies of this type would simply not be worth running for the insurers, or be affordable for those seeking to protect themselves in this way. Examining the costs of providing purely private, voluntary pensions to low-income customers, they argued that this group would require a significant amount of advice, and that this advice would have to be regulated. They found that for pensions providers to make a profit, the annual management charges that they would need to charge individuals who took out a private pension would be so high as to deter these individuals from saving: "…there is a segment of the market which cannot profitably be served except at Annual Management Charges (AMCs) which are in themselves significant disincentives to rational saving."[45]

Ability to predict and price risk

Private insurance markets such as home and car insurance rely on the ability of insurers to (more or less) accurately price risks, and on the risks of each individual insurance holder being independent. Unless there is a particularly large-scale crime wave, insurers do not expect to have to pay out premia to large numbers of home owners at the same time. The principal risk insured for under a social insurance scheme – unemployment – does not have these characteristics. As is all too evident at present, unemployment arising from macro-economic factors can, and frequently does, cause large numbers of people to be unemployed at the same time.

As the Social Care Commission argued (with relevance to the possibility of predicting who will need long-term care), the unpredictability of risk is a key feature preventing the development of private insurance markets. It pointed to the initial development but then total disappearance of private insurance options for social care during the 1990s, and concluded that:

> Given the uncertainty of having to write long-term contracts in this area, we think that insurers will always be wary of entering this market. There is a high risk of reputational damage if calculations prove to have been wrong and the insurer then fails to deliver on its contract. In contrast, the state has a different type of contract with individuals. It can offer the promise of protection against very high care costs, but is also able to modify the terms over time, for example as it does with the state retirement age.[46]

The Commission recommended what it calls a 'shared responsibility' model, whereby costs up to a certain level will be met by individual savings, and those above this level should be met by the state. While they envisage that some individuals may want to make provision for meeting their share of the costs through the use of financial products (and that there will be a continued means-tested provision for those who cannot meet these costs), it concludes that "there is currently too much uncertainty involved for the private sector to take on the full risk".[47] Contributory, non-means-tested systems of social insurance for unemployment similarly allow the costs of unemployment to be shared between the individual and the state, with the state providing a 'back stop' to ensure that people's income cannot fall below a certain level.

The difficulty of policing conditions in private insurance

Since its inception in 1911, the National Insurance system has demanded as a condition of claim that recipients be genuinely available for work.[48] At present, the state ensures that these conditions are met – by requiring JSA and ESA claimants to attend the Jobcentre and provide proof of job search or participation in work-related activities etc. Any company providing private insurance would presumably demand the same of those who sought to claim payments – but it is unclear how it would seek to ensure that these conditions were met, particularly if we imagine a private insurance market in which those who took up different products with different providers might be subject to varying conditions in order to make a claim.

Trust

The scandal over the inappropriate sale of payment protection insurance by banks (whereby many people were sold insurance against the cost of paying a loan if they became sick or unemployed, only to be told that they would not, in fact, be eligible to claim) may have led to reduced trust in the ability of private insurance companies to operate a fair insurance system that genuinely meets need. Without public trust, it's unlikely that a private sector led system of insurance would have significant levels of take up, which could lead to only limited coverage being available for much of the population.

Ability to use social insurance for other social goals

We argued above that the primary function that contributory benefits should play is insurance against predictable contingencies. But this does not mean that the way in which this insurance works should not help to meet other social goals. By having a social insurance system, rather than a private one, government can use the structure of contributions and payments to achieve other outcomes. Most obviously this includes redistribution, and the current system of graduated contributions and flat rate benefits means that the system does redistribute income 'vertically', from richer to poorer, as well as over the life cycle (for example, many people make payments over their working lives that enable them to draw upon pension payments as they retire). But social insurance can also be used as a macro-economic policy lever, as has been the case in the US where unemployment benefits have been increased in response to falling consumer demand,[49] or to encourage longer working lives by raising the state pension age. A privatised social insurance system would reduce the ability of government to meet these policy goals.

These advantages of the contributory system have frequently been pointed out over the past ten years.[50] But they appear to have been outweighed by other concerns in much recent policy-making, with 'the decline of the contributory principle' a more common theme than its revivification. However, comparison with other social security systems suggests that there is nothing inevitable about the decline of the contributory principle, and that the course that the UK has taken is not widely shared. Twenty years ago it was possible to see the UK social security system as foreshadowing the future of continental welfare states. But at this stage it would be hard to argue that there has been any general erosion of the contributory approach in western Europe and the Nordic countries. Table 4 below shows the share of contributions in the financing of social security expenditure in the country groupings used in Chapter 3. While most show falls in the contributions share, these are in most cases modest (the exceptions are Belgium and Norway – the share was already low in the latter).

Table 4: Social contributions as a percentage of social security expenditure

Area	Country	2000	2008	Change 2000–2008
CWE	European Union (15 countries)	60.9	57.6	-3.3
	Austria	66.4	65.2	-1.1
	Belgium	72.0	57.8	-14.2
	France	65.9	64.6	-1.3
	Germany	65.8	63.1	-2.7
	Netherlands	67.5	66.6	-0.9
Nordic	Denmark	29.4	32.2	2.7
	Finland	50.0	49.6	-0.5
	Norway	38.4	30.5	-7.9
	Sweden	49.9	47.5	-2.4

Source: Eurostat.

4. Policy options for reform

In this chapter we explore some options that would increase the coverage and public salience of the contributory principle within social security. The aim here is not to provide a blueprint for future reform but to highlight those areas where we believe attention can most profitably be focused.

We argued above that there were three current problems that reforms could help to address: a problem of public credibility due to the lack of visible links between contribution and entitlement at individual and collective level; relatively low labour market participation at some ages in the UK; and the fact that many remain outside of the system. Our proposals seek to address these three concerns by increasing the public salience of contributions, by raising the value of contributions and thus of employment at different stages in the life cycle, and by extending coverage to groups currently falling outside the contributions net.

We suggest increasing the salience of contributions by giving the National Insurance Fund a more prominent role in the presentation of fiscal policy, possibly with abiding commitments on the application of funds.

We then consider possible ways to increase the returns to contributions. We consider options including introducing earnings-related elements in out-of-work benefits and contributions-based elements in out-of-work benefits. We then argue that a contributory approach could provide invaluable help in managing the trade off between work and other uses of time such as parental responsibilities, caring and training, allowing more time to be spent on these activities while maintaining attachment to the labour market. As an initial move towards a time-based reward for contribution, we propose the introduction of a contributions-based benefit that could be paid during periods of parental leave that are currently unpaid (as an addition to existing paid provision of leave in the first year, not as a replacement for it).

Finally we look at how the coverage of contributions-based benefits could be increased by both changes to contributions rules and improved labour market performance. We recommend crediting in on a partial basis those who are currently earning below the LEL. This should be accompanied by increasing contributions from employers for short-hours' jobs, starting with partial employer contributions below the LEL. The aim of these proposals is not just to extend coverage but to offset the incentives on employers to offer lower working hours.

Credible reciprocity

People generally support the contributory principle, but believe it no longer has much relationship to expenditure or entitlements. In both cases they are at least partially right. In terms of expenditure, with the arguable exception of the 2002 increase in the contributions rate to pay for increased NHS expenditure, governments for the last 25 years have used increases to National Insurance contribution rates to fund cuts to income tax (Conservatives) or to avoid having to raise income tax (mainly Labour) rather than for the purposes for which the National Insurance Fund was established. While the decline of the contributory principle as a basis for entitlement has in part been as a result of the growth in generosity of tax credits intended to address poverty, some of the reliance on means testing springs from the failure of the contributory system to cover many of those who are in the labour market, and the failure of employment policy to ensure that more are able to contribute.

We have argued that 'making reciprocity manifest', to borrow Stuart White's phrase, cannot be achieved simply by imposing more responsibilities on claimants. The public sense of a 'something for nothing' system can no longer be seen as a reaction to the rules governing benefit receipt or the behaviour of claimants. The spiral of conditionality over recent years has done nothing to increase public confidence in the system, and the major reductions in caseloads that took place under Labour were for the most part achieved before the ramping up of conditionality in its third term. Thus we see little promise that further tightening of conditions would have any major impact on employment or public confidence.

Increasing the transparency of the National Insurance Fund

Increasing the credibility of the system by making its 'something for something' nature more evident demands links between contributions and benefits at two levels, collective and individual. The obvious vehicle for the former is the National Insurance system (we explore options for strengthening the link at individual level below). At the collective level, the single measure that would do most to restore the credibility of the contributory principle might therefore be a binding commitment by government to stop using National Insurance contributions as a way of avoiding tax increases.

This would be very challenging politically, as it would mean tying government's hands. Administratively, on the other hand, it would be relatively simple, as the architecture of the Fund remains relatively unscathed. Contributions are still earmarked for benefits and pensions after top-slicing a percentage for the NHS; the actuarial sustainability of the Fund is assessed on a five-yearly basis by the Government Actuary, who projects future balances and the contributions rates needed to keep the fund in balance on the basis of demographic and labour-market projections; in non-recessionary years the Fund is expected to run a surplus that builds to a reserve to handle major contingencies such as large-scale unemployment or epidemics: it has run such a surplus in 16 of the last 20 years and, while it ran a deficit in 2009/10 and may run one again in 2011/12, it would take 10 years of deficits on this scale to run down the balance.[51]

How could the existing architecture of the Fund be strengthened in order to demonstrate the sort of 'credible reciprocity' we are looking for? There is a range of options of varying degrees of radicalism. At one extreme this could take the form of publicity and reporting; the annual budget report could give the same sort of prominence to the Fund as is now given, for example, to the distributional impact assessment introduced by the present government, meaning that the key data would be widely reported and discussed. Any changes to contributions rates would then need to be justified by threatened imbalances in the Fund rather than the general fiscal and economic situation. (A specific exception would need to be made to increases proposed to reduce exceptional levels of government borrowing.)[52]

At the other extreme of radicalism, the actuarial sustainability of the Fund could become a binding constraint on policy with automatic adjustment of contributions rates or entitlements to long-term changes. For example, in Sweden an automatic mechanism adjusts future pension entitlements when the balance of contributions and payments is threatened by demographic change. It is possible in principle to extend this approach to the other main insurance benefits as, with the exception of unemployment, the underlying contingencies (birth, sickness, disability) change only gradually over time once account is taken of demographic change.[53]

To give teeth to the actuarial basis of the Fund in this way would be in keeping with one of Beveridge's principles: "…whatever money is required for provision of insurance benefits, so long as they are needed, should come from a Fund to which the recipients have contributed and *to which they may be required to make larger contributions if the Fund proves inadequate."*(Beveridge 1942, our italics).

Raising the value of contributions

An earnings-related Jobseeker's Allowance?

Jochen Clasen has suggested that the UK system lacks public legitimacy because it pays flat-rate rather than earnings-related benefits.[54] One recent suggestion to make the links between individual contribution and entitlement more clear has been to introduce an earnings-related element of JSA.[55] In order to avoid increasing public expenditure, this IPPR proposal suggests that the earnings-related element be repaid on resumption of employment. This hardly represents a strengthening of the contributory principle, as people would effectively be paying twice for this element, and the term 'insurance' would seem to be a misnomer.

We can ask, however, whether such a scheme would be feasible assuming funding was available, perhaps through reducing tax expenditures such as various higher-rate tax reliefs or abolishing the secondary threshold on National Insurance contributions for employers (see below). Our calculations, based on the existing contributions-based coverage of unemployed people and unemployment as of August 2010 give a somewhat lower figure than the IPPR's for the additional cost of the £132.50 supplement it proposes: a little under £1bn a year, representing a 24 per cent increase in JSA spend (the percentage is perhaps more relevant than the cash amount, given the current high level of unemployment). However, this way of costing the scheme suffers from a certain lack of logic. We have shown that a very small percentage of the unemployed are claiming contributions-based JSA, and we believe that part of the reason for this is that people are unaware of their entitlement. An earnings-related element would be expected to increase awareness and therefore increase the percentage of the unemployed who take up the entitlement. Indeed, this must surely be part of the aim of any such scheme. Any changes to this variable would have a big impact on estimated costs: to illustrate, if the percentage claiming increased from 10.4 per cent of the unemployed to 15.4 per cent, the extra costs would come to 42 per cent of JSA expenditure.

A further problem with proposals for earnings-related benefits is that there is little evidence that the UK public supports this.[56] Alan Hedges found that "As long as people pay in what they reasonably can, most participants would think they should be entitled to draw out what they need on the same basis as those who have paid a larger whack" (p 68). The evidence from public opinion research consistently shows strong support for the contributory principle combined with virtually no support for earnings-related benefits. It can be argued that these preferences are in fact moulded by the system itself: once an earnings-related scheme was in place preferences might adapt. On the other hand, under the fiscal conditions that are expected to prevail for most of the rest of this decade, an earnings-related scheme might not seem the most promising place to invest additional funds aimed at tackling the problems of legitimacy, coverage and encouraging labour participation that we identified earlier.

A contributions-based top-up to JSA?

A less expensive alternative that might fit public attitudes better would be to have a flat-rate contributions-based rather than an earnings-based top-up. Using the same assumptions as above, this would represent a cost of about £0.22 billion or 5 per cent of current JSA spend. Again, we would hope to see an increase in take-up: at 15.4 per cent the extra expenditure would come to about 16 per cent of JSA spend.[57]

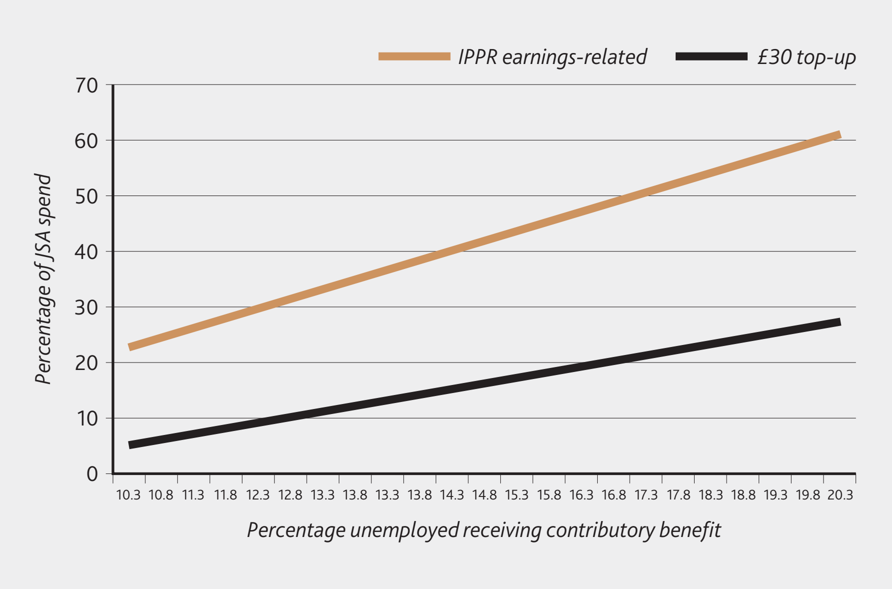
So a contributions-based top-up to JSA looks like a more realistic option for raising the value of National Insurance contributions, as well as fitting better with public attitudes. However, with unemployment at its current high levels there would be costs attached to the introduction of such a scheme. The range of costs that each proposal could incur is shown, as a proportion of JSA spend, in Figure 1 on page 33.

A time-based approach to rewarding contribution

We have noted that social insurance systems support planned as well as unplanned contingencies, and financial support is not confined to plugging drops in earnings arising from the classic risks of unemployment and sickness: the system also enables individuals to take time out of the labour market for childbirth and caring responsibilities. This function has if anything become more important over recent years: maternity pay/allowance and carer's allowance are the only areas of growth in income-replacing benefits. These popular benefits should be at the heart of any attempt to rebuild support for social security, but there is room for improvement to enable greater flexibility in handling planned and unplanned contingencies, with an obvious role for the contributory principle.

One model is the 'time-credit' system introduced in Belgium in 2002. Here contributions build up an entitlement to take up to a year's complete or partial exit from employment over working life to support a range of activities such as childcare,

Figure 1: Costs of earnings-related and £30 contributory top-up to JSA



caring for sick or disabled relatives and training. This sort of model has obvious appeal in plugging some of the gaps in the current system, for example, in dealing with short-term caring responsibilities. As it frees up time while maintaining the link to employment, it offers the potential to reduce long-term labour market exit by enabling short-term exit. The contributory approach is clearly relevant here, as the target group is people with strong labour market attachment.

To illustrate how this 'time-based' approach to rewarding contribution could work, we take the example of parental leave. The approach suggested here could be extended to other caring responsibilities and, as in Belgium, to training.

Payment during parental leave

The current system allows for 'crediting in' for the purposes of bereavement benefits and pensions while caring either for a child for which the person claims child benefit or for someone who receives a qualifying benefit during 20 hours a week. But the system at present does not recognise that the need to provide this care could also be seen as an 'insurable contingency'. This is an area where the neglect of caring responsibilities in the original Beveridge system still creates anomalies.

One step towards addressing this could be to provide contributions-based benefits for the current period of statutory unpaid parental leave, of up to 13 weeks for each parent before the child's fifth birthday.[58] The fact that this leave is unpaid makes it difficult for parents to take up. Providing access to a benefit during this period for those who have made sufficient contributions would both make this leave more accessible and provide a demonstrable benefit for having a contributory record. In introducing such a system it would, however, be vital that new contributory benefits were not used to replace the UK's existing paid maternity provision.

In the longer term, contributory benefits could also be made available for a longer period of parental leave in addition to the current provisions for paid maternity and paternity leave. Access to this type of leave, as in the Scandinavian countries, would increase both the ability to remain in the labour market and the rewards from doing so for those with children, helping to address Britain's comparatively low employment rates for women (and perhaps encouraging or enabling more men to take such leave).

Expanding coverage

We have seen that contributory benefit coverage in the UK is low by comparison with other countries with contributory schemes. There is little sign of any improvement in this situation, despite the increases in employment under Labour: for example, a similarly low proportion of unemployed people are on contributory JSA now as during the recession of the early 1990s. This is surprising because with the introduction of the National Minimum Wage and the alignment of the LEL with minimum wage employment at about 17 hours a week, we might have expected to see more people coming within the contributions net. The explanation for this anomaly lies in interruptions to employment and in employment at hours that fail to bring earnings up to the contributions threshold, coupled with contributions conditions that are tighter than in many countries (and which were made tighter by Labour for incapacity benefits). We believe that a key objective of future reform must be to expand employment at hours and earnings that bring people within the contributory system, both to improve their incomes and to build the relevance and credibility of the social security system. The need to manage the impacts of population ageing provides another strong motive for this.

The government's Universal Credit reform is premised on incentivising employment at less than 16 hours a week, in contrast with the incentives offered by the Working Tax Credit. Those working fewer than 16 hours a week will in many cases fall short of the LEL for crediting in for National Insurance contributions and their employers will not need to make contributions. At present there are about 1.5 million part-time workers for whom no employer contributions are payable. There is no equivalent exemption from employer contributions at the other end of the earnings scale. Those falling below the 'secondary threshold' for employer contributions are working short hours (at National Minimum Wage, working 17 hours a week brings earnings up to the secondary threshold). The cost to the Exchequer of this subsidy to short-hours working is about £2bn (the total cost of the employer threshold is £16.6bn: £2bn represents the share attributable to jobs where earnings fall short of the threshold).

Our analysis of the potential for employment to offset some of the impacts of population ageing showed that modest increases to average working hours would be necessary to realise the full benefits of increased employment. At the same time, short-hours working will leave even more workers outside the social insurance net. We therefore feel the case for redesigning the benefit system around incentivising shorter working hours is weak. Those who would benefit from 'mini-jobs', including disabled people and some with childcare responsibilities, could benefit as much from specific measures that would not risk overspill effects on labour markets. The combination of a subsidy to employers and incentivisation of employees to work shorter hours is very hard to justify.

To address the exclusion of short-hours workers from the contributory system we suggest a return to partial crediting in below the LEL, ensuring that all employment allows people to accrue some future entitlements. However, while we think that those in short-hours jobs should have their contribution recognised, we do not think that employers should be incentivised to keep hours low to reduce liability for their contributions. Therefore we think that employers should begin to pay National Insurance contributions when employing people at earnings below the current secondary threshold.

This could be achieved over time, with a first step involving the introduction of partial contributions at, for example, 8 per cent. This was the approach taken in Germany after the Harz IV reforms that incentivised mini-jobs: employer contributions are paid, but at a lower rate than on other jobs. The introduction of the partial contribution could be combined with an offsetting reduction in the overall contributions rate for employers and employees, as the purpose of this reform is not to increase the volume of labour taxation but to improve incentives for sustainable employment. Alternatively, the relatively modest increase in National Insurance contribution revenue could be used to fund other National Insurance expenditure. As we see no reason why the employer contribution rate should vary with hours worked, we would envisage the partial contribution rate eventually being abolished in favour of a single employer rate on all earnings, thus creating a level playing field on the labour demand side, while employees working short hours would benefit from partial crediting in.

5. What else needs to happen?

This final chapter outlines other changes that need to be made in tandem with a revival of the contributory system of social security if both coverage and contribution rates are to be boosted. The social security system alone cannot embed a principle of reciprocity into society, fully meet the needs of those in need of a safety net and function to help provide labour market security without other changes in this area. These include a macro-economic policy focus on full employment, the revival of a job guarantee scheme along the lines of the Future Jobs Fund, a disability employment strategy, measures to address the gendered pattern of employment, and a system to formalise the rights of the most vulnerable workers. Moreover, the 'something for something' value of the contributory system needs to sit alongside the value of solidarity that ensures people's needs are met.

As we have outlined, it is also vital that policy-makers recognise that social insurance is only one function of a social security system. Those who are excluded still need to be protected from poverty and insecurity. One major barrier to this at the moment is the decision to uprate benefits in line with the Retail Price Index rather than the Consumer Price Index, leaving the value of protection to fall even further behind living standards. As we set out in Chapter 1, a failure to those excluded from contributory benefits has undermined, rather than supported, the contributory system throughout its history. The 'safety net' function of social security remains vital – for those who have not been able to contribute, as well as those who have. The key task is to enable more people to make a contribution, and we set out some initial steps towards that goal here.

Key changes we believe are needed to accompany reform of the contributory system are outlined below.

A commitment to full employment

A commitment to full employment was the fundamental assumption underpinning the Beveridge Report, and is as important now as then. At the time of writing, unemployment stands at 8.1 per cent. Without a sustained effort to address this through macro-economic policy, the social security system stands little chance of being able to encourage or reward contribution.

Guaranteeing jobs

As part of the commitment to full employment, there is a role for job guarantees such as those provided to young people within the Future Jobs Fund. The Work and Pensions Select Committee, examining the performance and cancellation of the Fund, concluded that:

> There is… some strong evidence that employer recruitment processes and selection behaviours have been significantly changed as a result of experiences gained through the FJF. There is now a greater recognition of the contribution that young, formerly unemployed people can make to workforce diversity in many organisations involved in the FJF.[59]

The Future Jobs Fund, or a demand-led labour market scheme of a similar nature, should be revived in order to enable more young people to make this contribution.

Addressing barriers to employment for disabled people

The social insurance system has traditionally dealt poorly with those with disabilities, reflecting the fact that the labour market also serves them badly. Research by Richard Berthoud for the Department of Work and Pensions found that not only do "disabled people face one of the largest employment penalties of all social groups being compared" but also that "the employment penalty faced by the disabled population has increased substantially since the 1970s".[60] Alongside any revived contributory system, a clear disability employment strategy that sets out to reduce and eliminate this penalty is needed.

Addressing the gendered nature of employment

As hardly needs stating, women continue to face significant labour market disadvantage, including a pay gap of 15.5 per cent. Berthoud found that, while the position of women and mothers had improved substantially since the 1970s, mothers and Muslim women, alongside disabled people, were the groups that faced the largest employment disadvantage. Breaking down barriers to women's employment is not only essential on the grounds of fairness, it also represents the best means of addressing the problems that an ageing population could mean for the affordability of the social security system. We think that the moves in the direction of paid parental leave that we suggest in this paper represent one step on the road to addressing this problem, making it easier for women to combine work and parenting, and more attractive for men to do so.

Childcare remains the other major policy lever in this area. We believe that childcare should be seen as an additional cost that society has a clear interest in meeting, and thus addressed through universal provision.

Improving the security of jobs

The National Insurance system has often been criticised for failing to deal with those in insecure employment. While our proposals would help extend coverage to those working in short-hours jobs, we think that the other side of this bargain must be measures to improve job security and job quality. The TUC's Commission on Vulnerable Employment[61] set out a range of proposals to both review and enforce employment rights. Implementation of these proposals is an important step on the route to ensuring that those who are contributing through paid employment can have this contribution recognised.

Recognising the contribution of unpaid work

As we set out in Chapter 1, the social security system will always be an imperfect means of recognising the reciprocal contributions that people make to each other within society. Our proposals do not suggest extending National Insurance rights to those who make important contributions such as volunteering, or further extending the rights of those providing care. Any wider argument that seeks to embed the concept of 'reciprocity' throughout society needs to consider these contributions, and how they are recognised.

References

1 Policy Exhange (2011). "Policy Exchange calls for thirty-five hour working week for jobseekers and return contributory welfare system" Press release published at: http://www.policyexchange.org.uk/assets/No_Rights_W-O_Responsi..._PR.pdf

2 While social insurance can accommodate fluctuations in labour demand and variation in individual risk exposure, there are limits; and when European labour markets were hit with an unprecedented combination of demand-deficient and structural unemployment in the 1980s and early 1990s, the stresses on insurance-based systems came close to overwhelming them.

3 Hirsch, D. (2011) *A Minimum Income Standard for the UK in 2011.* Joseph Rowntree Foundation.

4 Beveridge, W. (1942) *Social Insurance and Allied Services.* HMSO Cmd 6404.

5 Beveridge, W. (1942) *Social Insurance and Allied Services.* HMSO Cmd 6404.

6 Ibid.

7 House of Commons Select Committee on Social Security (2000). *The Contributory Principle.* HC56-I.

8 See Beaumont, J. (2011) "Households and families" in *Social Trends 41,* Office for National Statistics.

9 House of Commons Select Committee on Social Security (2000). *The Contributory Principle.* HC56-I.

10 O'Brien, N. (2011) *Just Deserts? Attitudes to fairness, poverty and welfare reform.* Policy Exchange.

11 White, S. (2003) *The Civic Minimum.* Oxford University Press.

12 Cooke, G. (2011) *National Salary Insurance: Reforming the welfare state to provide real protection.* Institute of Public Policy Research.

13 Byrne, L. (2011) Speech to Labour Party conference. Available at: http://www.labour.org.uk/liam-speech-to-labour-party-conference,2011-09-26

14 Lawton, K. (2011) "Most benefits overpayment is not caused by fraud", Guardian, 17 February 2011, published online at http://www.guardian.co.uk/commentisfree/2011/feb/17/benefits-overpayment-fraud-welfare-reform-bill.

15 See chart on p 211 of Horton, T. and Gregory, J. (2009) *The Solidarity Society: Why we can afford to end poverty and how to do it with public support.* Fabian Society.

16 See the analysis by Full Fact published here: http://fullfact.org/factchecks/DWP_fraud_hotline_ success_rate_ prosecutions-3167.

17 There is more detail on the in the web annex 'who is currently claiming benefits' which can be viewed here: www.tuc.org.uk/social/tuc-20945-f0.cfm

18 These figures include disabled people and carers who are in employment (about 14 per cent of Disability Living Allowance recipients: figures are not available for carers).

19 The classic account remains Mauss, M. (2002) *The Gift: the form and reason for exchange in archaic societies,* Oxford.

20 Sperber, D. (1990) 'The epidemiology of beliefs' in Fraser, C. and Gaskell, G. (eds), *The Social Psychological Study of Widespread Beliefs.* New York.

21 On information asymmetry and the risk of collapsing confidence see Akerlof, G. A (2005) 'The market for lemons: quality uncertainty and the market mechanism' in *Explorations in Pragmatic Economics: Selected papers of George A. Akerlof and collaborators.* Oxford.

22 People with sufficient National Insurance contributions are entitled to contributory JSA for six months after losing employment, which means that the benefit is not means tested. However the majority of JSA claimants are on 'income-based' JSA which is means tested, either because their contributions record is insufficient or because they have been unemployed for more than six months.

23 We have amended the data in *World Social Security Report* Table 22a for the UK to distinguish between contributions-based and income-based JSA.

24 There is also the possibility that even among claims of three months or less there is some distortion due to contributions-based claims ending more quickly than income-based, if for example those with stronger work records have shorter JSA durations.

25 Gaffney, D. (2011) "'Youth unemployment' or just unemployment?". Available at http://lartsocial.org/http%3A//lartsocial.org/youth-unemployment

26 Direct comparison of eligibility conditions is difficult due to the complexity of the JSA ccontributions conditions, which turn on the value of contributions (and thus on earnings) as well as on the contributions record while most systems simply use the latter. Many systems are based on contributions for a half or a third of a reference period of one to three years: those working 16 hours at the minimum wage in the UK would need to have worked continuously for two years to meet the contributions conditions for JSA.

27 More information on these calculations is provided in the web annex: coping with the pressures of demography, which can be viewed here: www.tuc.org.uk/social/tuc-20947-f0.cfm

28 The ratio is [POP>=15+POP>=65]/EMP>=15 where POP is the population in the relevant age band and EMP is employment. It includes the employed aged over 65 in the denominator and the numerator. For the advantages of this measure see Gaffney, 'Dependency ratios'. Available at http://lartsocial.org/dependencyratios. These figures are based on ONS's 'low migration' 2008-based population projection, as used by the Office for Budget Responsibility.

29 Evans, S. Rossiter, A., Mueller, K., Menne, V. (2008) Anglo-Flexicurity: A safety net for UK Workers. Social Market Foundation. Available at: http://www.smf.co.uk/assets/files/publications/SMF_Angloflexicurity.pdf

30 Horton, T. and Bamfield, L. (2009) *Understanding Attitudes to Tackling Economic Inequality.* Joseph Rowntree Foundation.

31 Hedges, A. (2005) *Perceptions of Redistribution: Report on exploratory qualitative research,* Case Paper 96, pp 60–1 at http://sticerd.lse.ac.uk/dps/case/cp/CASEpaper96.pdf

32 Horton and Gregory (2009) cite evidence on p 55 suggesting that the budget that included this tax rise was the most popular since the 1970s.

33 Marshall T.H. (1963) "Citizenship and social class" in Goodin, R.E. and Pettit, P. (1997). *Contemporary Political Philosophy: An anthology.* Oxford, p 298; Simmel, G. 'The poor' in Levine DN (ed.) (1971); *Georg Simmel on Individuality and Social Forms.* Chicago, p 172.

34 William Pitt the Younger, 12 February 1796, cited by Clark, A. (2000) "The New Poor Law and the breadwinner wage: contrasting assumptions", *Journal of Social History,* vol. 34, no. 2, p 261–81. Such statements were commonplace and relatively uncontroversial in the late eighteenth century before the resurgence of the assistance model in the nineteenth century. Here, the notion of contribution turns on having children, harking back to what was already an outdated view that population was the basis of national wealth. (Malthus's essay on the principle of population was to deal a severe blow to this view two years later, providing the setting for the later dominance of the assistance model.)

35 Entitlement to benefit as a right is not restricted to contributory benefits but also applies to those provided universally.

36 Titmuss, R. cited in Hills, J. (2003) *Inclusion or Insurance? National Insurance and the future of the contributory principle,* Case Paper 68. Available at: http://sticerd.lse.ac.uk/dps/case/cp/CASEpaper68.pdf

37 Hedges, A. (2005) Perceptions of Redistribution: Report on exploratory qualitative research, Case Paper 96, p 32.Available at http://sticerd.lse.ac.uk/dps/case/cp/CASEpaper96.pdf

38 Bennett, F., Sutherland, H. (2010) *The Importance of Independent Income: Understanding the role of non means-tested earnings replacement benefits.* Institute for Social and Economic Research.

39 Brewer, M., Browne, J., Joyce, R., Sibieta, L. (2010) *Child Poverty in the UK since 1998–99: Lessons from the last decade.* Institute for Fiscal Studies.

40 Department of Work and Pensions (2011). *Universal Credit Policy Briefing Note 3: Treatment of capital.* Available at: http://www.dwp.gov.uk/docs/ucpbn-3-capital.pdf

41 Hills, J. (2003) *Inclusion or Insurance? National Insurance and the future of the contributory principle,* Case Paper 68. Available at: http://sticerd.lse.ac.uk/dps/case/cp/CASEpaper68.pdf

42 Commission on Funding of Care and Support (2011) *Fairer Care Funding: The Report of the Commission on Funding of Care and Support.* Available at: https://www.wp.dh.gov.uk/carecommission/files/2011/07/Fairer-Care-Funding-Report.pdf. See p 31, which states: "In principle, there are two ways in which a person could seek to finance such costs – by self-insuring or by buying insurance. In a world of no insurance (i.e. no risk pooling), a person who seeks total protection must save enough to cover the costs of the maximum potential duration of long-term care. Working on figures of £30,000 p.a. for 20 years, this would equate to £600,000. If they bought insurance (i.e. risks are pooled) at a fair price they would need to save enough to cover the average duration of care. This would be two years, at £30,000 p.a. with a probability of 25%. In total, this would mean spending £15,000 (excluding administration costs). With risk pooling in place, people who wanted to protect themselves would not have to save £600,000; instead they would pay an insurance premium of £15,000."

43 Jonathan Portes (in an interview with the authors) pointed out that high risk of unemployment should be reflected in higher pay, e.g. the risk of being a freelance policy consultant is reflected in the generous rates of return. However this is clearly not the case for issues such as disability or low skills.

44 Evans, S., Rossiter, A., Mueller, K., Menne, V. (2008) *Anglo-Flexicurity: A safety net for UK workers.* Social Market Foundation.

45 Personal correspondence from Stuart White.

46 *A New Pensions Settlement for the Twenty-first Century: The second report of the Pensions Commission* (2005), p 70.

47 Commission on Funding of Care and Support (2011) *Fairer Care Funding: The report of the Commission on Funding of Care and Support.* Available at: https://www.wp.dh.gov.uk/carecommission/files/2011/07/Fairer-Care-Funding-Report.pdf

48 Ibid.

49 Griggs, J., Bennett, F. (2009) *Rights and Responsibilities in the Social Security System.* Social Security Advisory Committee.

50 Congressional Budget Office. 'Policies for increasing economic growth and employment in 2012 and 2013'. 15 November 15 2011, http://cboblog.cbo.gov/?p=3004

51 For example, the Social Security Advisory Select Committee Report in 2000; House of Commons Select Committee on Social Security (2000), *The Contributory Principle* HC56-I.

52 Balances do not, of course, represent 'real' resources lying in a savings account; they are used to reduce government borrowing or fund investment. In this sense the National Insurance Fund is a virtual entity. This leads to accusations that the Fund is a pure fiction that merits abolition (IFS). A false analogy with private insurance, where the insurer needs to hold actual reserves to balance a proportion of liabilities, may encourage this view, but the absence of this requirement was one of the features that for Beveridge distinguished social insurance from private insurance: *"The State with its power of compelling successive generations of citizens to become insured and its power of taxation is not under the necessity of accumulating reserves for actuarial risks and has not, in fact, adopted this method in the past"* (Beveridge 1942, our italics). There no obvious rationale for the National Insurance Fund to be anything other than a virtual entity, so criticisms based on this seem misplaced. At the same time, the fact that surpluses are earmarked for investment purposes (or reducing borrowing) is surely attractive, symbolising the future-oriented and intergenerational aspects of the system.

53 Recent rises in disability are the exception, but as noted these are highly specific (learning difficulties and mental health) and may not represent changes in prevalence.

54 Clasen, J. (2001) 'Social insurance and the contributory principle: a paradox in contemporary British social policy'Social Policy and Administration, vol. 35, no. 6, pp 641–57.

55 Cooke, G. (2011) National Salary Insurance: Reforming the welfare state to provide real protection. Institute of Public Policy Research.

56 Hills, J. (2003) *Inclusion or Insurance? National Insurance and the future of the contributory principle,* Case Paper 68. Available at: http://sticerd.lse.ac.uk/dps/case/cp/CASEpaper68.pdf

57 Calculations based on JSA contributory and non-contributory receipt and per capita expenditure as of May 2011. Costs include the extra expenditure on basic JSA (without top-up) induced by increases in the percentage of unemployed claiming.

58 Each parent can take a total of up to 13 weeks' parental leave for each child up to their fifth birthday. If the child is adopted, each parent can take a total of up to 13 weeks' parental leave. This can be until the fifth anniversary of their placement with the parents or until the child's 18th birthday, whichever comes first. If the child is disabled (that is, receiving Disability Allowance) each parent has the right to take up to 18 weeks' parental leave until the child's 18th birthday.

59 House of Commons Work and Pensions Select Committee (2010.) *Youth Unemployment and the Future Jobs Fund,* HC 472. London: The Stationary Office, para 60.

60 Berthoud, R., Blekesaune, M. (2007) *Persistent Employment Disadvantage.* DWP Research Report No 416. Available at: http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep416.pdf

61 TUC Commission on Vulnerable Workers (2007). *Hard Work, Hidden Lives: The full report of the Commission on Vulnerable Employment.* TUC. Available at: http://www.vulnerableworkers.org.uk/cove-report/short-report/index.htm

The TOUCHSTONE Blog

Go to **www.touchstoneblog.org.uk** for informed and lively progressive comment on the big policy issues of the day. Blog posts are written by TUC experts with a passion for social justice.

£10

For more copies of this title contact our ordering point on 020 7467 1294 or smills@tuc.org.uk

All TUC publications may be made available for dyslexic or visually impaired readers, on request, in an agreed electronic format or in accessible formats such as Braille, audiotape and large print, at no extra cost.

Design: Eureka! Design Consultants
Print: Precision Printing
Cover illustration: Lo Cole

Social security has rarely been less popular: many people believe that the system is widely abused and that benefits should be cut. This pamphlet argues that the perceptions of abuse are mistaken and that revived and enhanced contributory benefits could help re-build support, improve Britain's economic performance and put us in a better position to address the problems of an ageing society.

TOUCHSTONE Pamphlets are published by the Trades Union Congress. They are not statements of TUC policy but instead are designed to inform and stimulate debate on the most pressing issues facing British policy makers. More details and full downloads of all the pamphlets can be found at: www.tuc.org.uk/touchstonepamphlets

TUC

Trades Union Congress
Congress House
Great Russell Street
London
WC1B 3LS

www.tuc.org.uk

ISBN 978 1 85006 928 7