



Frank Field

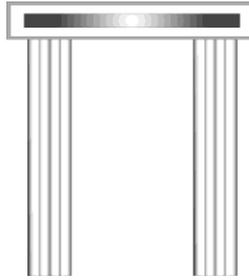
Working Welfare

**Contributory Benefits, the Moral
Economy and the New Politics**

**Series Editor
Sheila Lawlor**

POLITEIA

A FORUM FOR SOCIAL AND ECONOMIC THINKING



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THE AUTHOR

Frank Field has been Labour MP for Birkenhead since 1979. He was Chairman of the House of Common Social Security Select Committee from 1990 to 1997 and Minister of State for Welfare Reform from 1997 to 1998. He chaired the Independent Review on Poverty and Life Chances.

He writes mainly on policy to promote self reliance and welfare reform, but his interests also include constitutional matters and Britain's relations with the EU. Recent publications include *The Foundation Years: preventing poor children becoming poor adults* (2010) and for Politeia he has written *How Savings Damage Your Retirement* (2003) and *The Future of Welfare Reform* (1998).

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Foreword:
Contributory Insurance, Popular Aspiration and Economic Reality
Sheila Lawlor

The popularity of Beveridge's 1942 Report¹, the blueprint for Britain's welfare state, owed much to the contributory principle on which the new benefit system would be based. Benefit dependent on contribution, Beveridge explained, would avoid means-testing, encourage hard work, thrift and saving, and it would cap the size of government and its bureaucracy. Men and women would prefer to 'own' their benefit as an entitlement in virtue of paying a contribution, rather than its being means-tested or dependent on the twists and turns of the political classes. The war-time government, though circumspect about aspects of the scheme, welcomed the contributory model. The cost of and demand for benefit could be controlled and kept within the limits of what people were prepared to pay.²

As a result, the broad principles for the new welfare model were accepted, and an insurance scheme to replace lost or interrupted earnings for the main contingencies of life was proposed by Churchill's war-time coalition. The new scheme built on what was already in place. The aim now was to unify and extend the system so it became comprehensive, unitary and uniform, with every person covered by a flat rate benefit in return for a flat rate contribution paid by themselves if earning, or by the household breadwinner. There would be a three way contribution: by the individual employee, the employer and the taxpayer, with a social fund accumulated. For those who did not earn or contribute enough to qualify, there would be a smaller, means-tested benefit, 'national assistance'. In 1945 the Labour government introduced their version of the National Insurance scheme. But successive governments have failed to respect the contributory principle.³ In its absence benefit bills increased. Initially, as politicians sought to woo retired voters in the late 1940s and 1950s, the contribution period for retirement pensions was shortened. Then in the 1960s and 1970s came the growing portion of non-earning households, such as those headed by lone parents, often without a breadwinner, or others where the breadwinner had moved from the labour market to incapacity benefit. As a result, National Insurance became a hotchpotch of handouts and rules designed to meet demand from those who had not contributed (or contributed enough). Contributors were increasingly penalised in favour of non-contributors, and contributory benefit could be smaller than the benefit for non-contributors. Too often, the state has replaced the breadwinner.

The longer term consequences have been serious. Welfare budgets have spiralled, often despite the best efforts of governments, including those of the current Coalition;

¹ *Social Insurance and Allied Services*, Report by Sir William Beveridge, Cmd 6404, HMSO Nov 1942 (reprinted 1995).

² These questions will be considered in my forthcoming book on post war social policy.

³ These points and developments in the decades from the 1940s are discussed in my Politeia publication, *Beveridge or Brown? Contribution and Redistribution: The Real Social Security Debate*, (Politeia, 1998).

governments' failure over time to honour the implied 'contract' between contributor and the state in favour of unfunded, often larger, payments to those who have not met contributions, has undermined the integrity of government; and to the tax and national insurance contributions demanded of working people have been added the cost of servicing government debt. But worst of all, the abandonment of the contributory principle as the basis for benefit has undermined public consciousness of two important principles: that each household must have a breadwinner for its support, and, barring exceptional cases, provision must be made in time of working for those times when earnings cease. Indeed, now the Coalition itself is violating these principles through its plan to abolish the contributory retirement pension in favour of a single tier, non-contributory benefit for all, including those who may not have met full contributions conditions, and in which those who have paid and contributed most over a working lifetime look set to lose out.⁴

In *Working Welfare: Contributory Benefits, the Moral Economy and the New Politics*, Frank Field proposes a return to the contributory insurance principle. This, he explains, is necessary in the light of the new economic and fiscal reality where the aim must be to pitch public spending no higher than 40 per cent of GDP; it is necessary for a moral economy, one where people justly reap the rewards of their labour in a 'something for something society'; it is also necessary if demographic change and higher aspirations are to be paid for. Field proposes that contributors should own their benefit, that the funds should be managed by new mutuals under their own elected boards, along the model of the John Lewis Partnership; and that government should limit its role to establishing the legal framework, and ensure benefit is linked to contribution.

Frank Field's proposal is the first in Politeia's new economic series *Paying for the Future: Contribution not Redistribution*. It reflects the increasingly accepted economic position that western economies must reduce public spending ratios to no more than 40 per cent of GDP and aim for a figure nearer 35 per cent if they are to compete globally and meet popular aspirations. Field applies this analysis to the two questions at the heart of British policy, the size of the state commensurate with its ability to flourish and pay its way, and the aspirations of its people for a better life. Field's proposal will be followed by others' in Politeia's new series. Each will consider how the contributory principle has succeeded where applied or how it can be regained, so that Britain can both flourish economically *and* meet popular aspirations just as it was poised to do in the past and other modern, successful economies do today.

Sheila Lawlor, Director, Politeia

⁴ For the background to the new proposals see the White Paper, 'The Single-tier pension: A simple foundation for saving', CM 8528, The Stationery Office 2013, www.gov.uk/government/publications/the-single-tier-pension-a-simple-foundation-for-saving--2. The Pensions Bill 2013-14 to implement the single-tier pension was introduced in May 2013 and is currently passing through parliament, see services.parliament.uk/bills/2013-14/pensions.html. For a short analysis of the implication of the new proposal see Sheila Lawlor, 'Incentive to work will be dampened by pension reform', 25 January 2013, *City AM*, www.cityam.com/article/incentive-work-will-be-dampened-pension-reform.

I

Introduction: The New Politics

Politics, possibly for the next three parliaments, will be dominated by the need to balance the nation's budget and will remain so when the economy returns to growth. The scope and goals of all policies will be circumscribed by this fundamental requirement. What hope then for major welfare reform which has always rested on the assumption that spare cash, and stacks of it, is a necessary prerequisite for any serious attempts at reform?

This paper⁵, which is the first in a series on the theme *The Politics of Virtue*, attacks this conventional wisdom by arguing that the debt-inspired economic crisis makes it easier rather than harder to embrace radical welfare reform. It is this age of austerity that offers, paradoxically, a revolutionary moment on this front.

The overall budget is being cut and will continue to be cut, and the welfare budget, the largest of any of the government spending programmes, is taking its share. Yet, at the same time, pressures mount for increases in welfare expenditure. We are, not least, an ageing population. How do we first gain, and then pay for adequate pensions to the ever increasing proportion of the population, as well as meeting their health and care needs? How we meet this challenge I have termed the new politics.

If we do not agree that we need a new politics we are faced with two equally unappealing scenarios. Either health and pensions would squeeze out most other programmes and we would then have to settle for a managed, shared decline in practically all other services the state offers. Or health and welfare are treated in the same way as all other public sector budgets and follow the same line of cuts at a time when demand for both these areas are expanding fast and we therefore deliver inadequate support.

Neither of these scenarios is going to be remotely acceptable to voters. There has to be a civilised alternative. So the debate ought to be centred on how we break away from sleepwalking into one of these two equally unacceptable scenarios.

The emergence of these new politics calls for a very different contract between contributors and government: any additional expenditure must be matched by constitutional changes that allow contributors to keep control of their funds. I do not underestimate how fundamental a change in the relationship between the citizen and government this would represent. But we need a seismic shift in our approach. The current budget crisis offers the chance not only for radical rethinking, but for the politics which should then follow.

⁵ This will be developed in a lecture to launch Politeia's 2013-14 series *Paying for the Future: Contribution not Redistribution*.

The course set out here aligns with the electorate's wish for greater control over their own affairs. It sets out a series of social as opposed to state collective initiatives. The measures are collectivist, in that they are commonly owned, but social in that membership can be acquired by all who follow our unwritten rules of citizenship, as each individual collectively has a decisive say over the control and ownership of the assets and entitlements for which he and she will pay.

This paper therefore considers three related themes. It begins by taking a fresh look at just how seriously addicted British voters have become to electing governments which offer more in goods and services than they ask the electorate to pay for.

The second theme takes the title of that famous track in the 1930s, by asking who are today's guilty men? As women have played so little part in cabinet politics since the war, the question is addressed strictly to male politicians. In this section we look at how most post-war years have been characterised by budget deficits.

The third theme of the lecture sketches out how the increases in demands of health and welfare might be met in an age of overall budget deficits, not by cutting other budgets, but by seeking a new deal with taxpayers. The plea is for work to be done over the next six months so that Labour has a clear alternative to offer the electorate at the next election, one based on new forms of social collectivism. But first: 'It's the budget stupid'.

II

It's the Budget, Stupid!

'It's the economy stupid' is the phrase coined by President Clinton's campaign strategist for his successful 1992 presidential electoral campaign. And so it proved to be. And it will be equally true here at the next election. 'It is the budget, stupid', bound up as it is with growth in the economy that will determine the outcome of the next election. So what then of what I call budget politics?

Over the past 150 years there have been two distinct phases in the politics of the national budget. A third phase has already begun.

The first of these phases came as the campaign for extending the franchise for a second time began to dominate politics in the 1860s. Middle and upper middle class voters questioned how trustworthy the working class would be in exercising their vote. Their worry was that the newly enfranchised would force through social advantages for themselves for which the middle and upper classes, would have to pay.

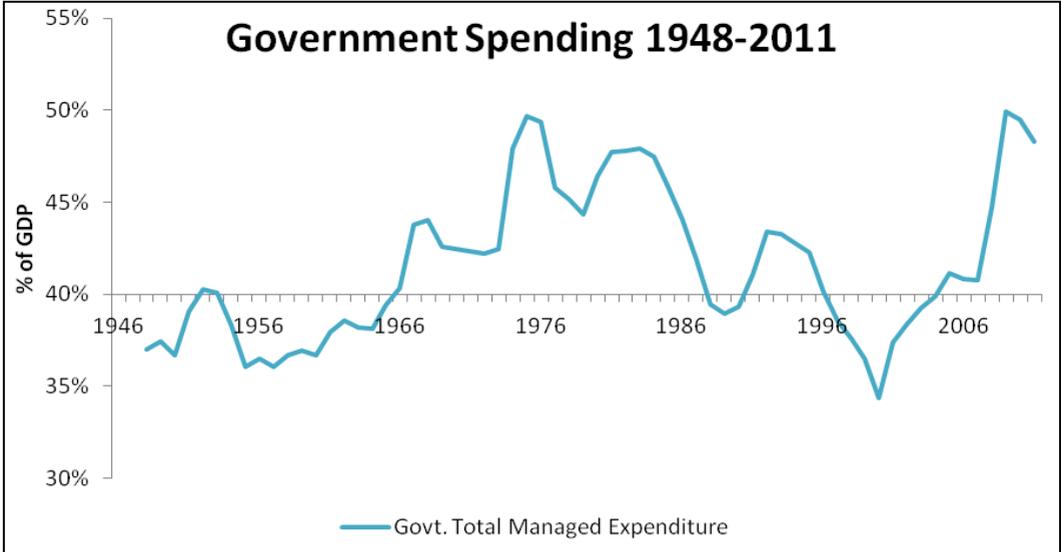
The second phase, that has dominated the lives of practically every voter under 70, opened up much more recently, and commenced as the Labour Party began to reflect on its third consecutive election defeat during the 1950s. Once Labour began arguing that equality, not nationalisation, was the party's goal, and the route to equality was greater public expenditure, the starting gun had sounded for the birth of higher public expenditure politics. How did the Tories react?

While the Tories registered, as had their political ancestors, the 'weakness' among poorer people to vote for benefits for which they would not have to pay, they realised that to oppose increasing public expenditure could lead to an almost permanent exclusion from power. It was not long therefore before they matched, generally, Labour's promises, while simultaneously roundly condemning Labour's irresponsibility for making such commitments in the first place. This response, over time, gave way to one that was more upfront about Tory intentions. An election-time cry was that, by trusting the Tories, more, not less, would in effect be delivered to voters, often in excess of election promises.

So a ratchet effect that locked in rising public expenditure was politically institutionalised between the two major parties, and this was reinforced by the growing power of the public sector unions that equated not only real wage increases but an expanding public service as a main goal of public service.

The results of these pressures for greater and greater public expenditure is plotted in the graph below. Here I have drawn government expenditure around an axis of a 40 per cent benchmark of GDP. I have taken this measurement as politicians have warned

that freedom could be endangered if much more than this level of GDP was taken in taxation, but any cut-off point would have illustrated public expenditure trends to which I wish to draw attention. But before doing so, let me remind you that the GDP over this period has more than doubled. So we are examining a rising share of a rising GDP being spent by government.



Graph 1: Government spending as a percentage of GDP, 1948 – 2011 (House of Commons Library, 2013)

There are a number of marked trends. Reading across the graph we can see that, for a very short period, at the time of the Korean War in the very early 1950s, public expenditure peaked fractionally above that 40 per cent benchmark. But it then fell back for a noticeable period. Expenditure came in at around 36-37 per cent of GDP and only began to head towards the 40 per cent GDP mark in 1962.

Four years later it crossed the 40 per cent threshold and has generally remained there ever since. True, the graph shows there was a short period (three years from 1988) when public expenditure bills fell below 40 per cent mark as they did again in 1997 in a more pronounced way. Yet the basic point remains; for much of the latter post-war period public spending was not only above, but was well above the 40 per cent mark, even touching 50 per cent in 2009. It will remain at around 48 per cent of GDP even if the Coalition government's expenditure cuts programme is successful.

Those who pushed most in the Labour Party for greater equality as a goal, and high social spending as the means to this end, were called Revisionists. Their line was not a simple one of increasing public expenditure across a broad front. It singled out expenditure that covered social security, education and health, believing that growing these budgets would result in greater social justice. The Revisionists have been more than successful on the expenditure front.

Let me sum up the argument so far. Of a rapidly expanding national income, doubling during the post-war period, the overall government budget has increased 4.5-fold over the same period of time. Of this 4.5-fold increase, three budgets stand out as the big winners, if winner is defined as gaining more, much more, than a 4.5-fold increase.

- Education expenditure has risen since 1950/1 eight-fold.
- Health expenditure from the same base year shows an almost ten-fold increase.
- Social Security expenditure, measured over a slightly longer time span, from 1948, records an eleven-fold increase.

The advance of these three budgets, gaining a disproportionate increase in a rapidly expanding overall government budget, can be seen in the pie chart below. Total government expenditure as I have just remarked has risen 4.5-fold. So it is within a growing national budget that these three budgets are seen to have gained a larger share of the larger programme of government expenditure, and the pie chart very visibly shows the three budgets' dominance of what the government spends our money on.

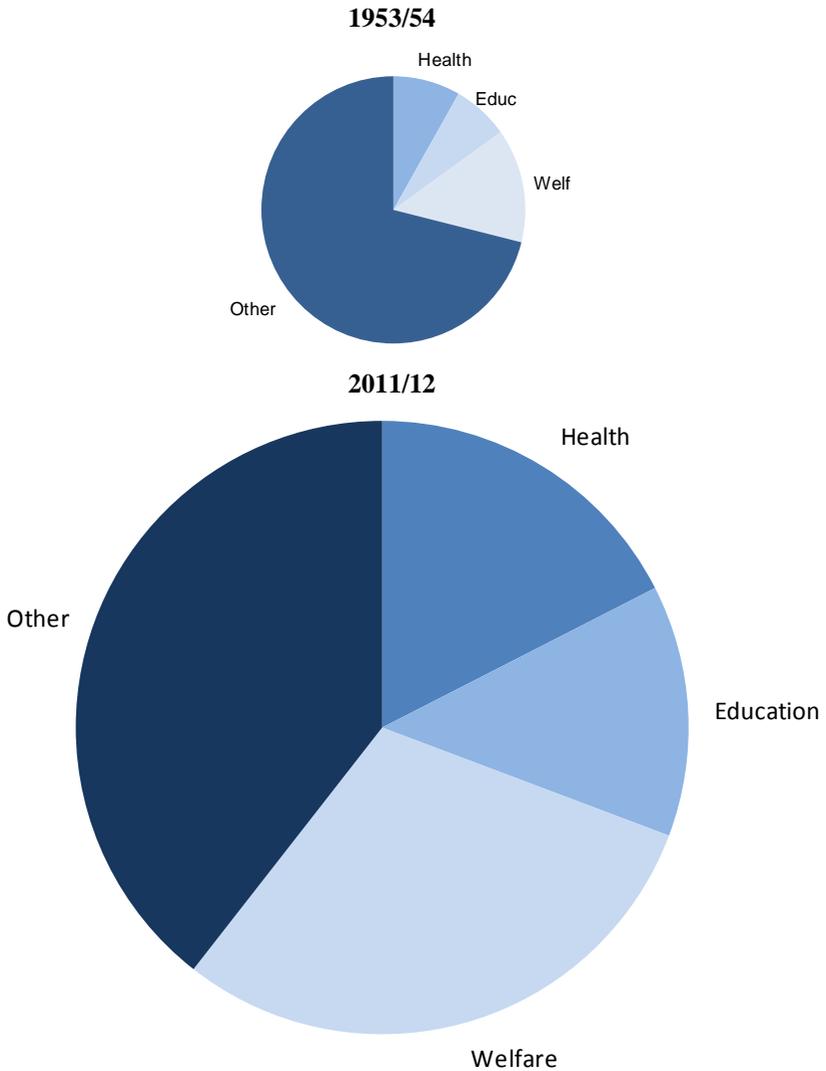
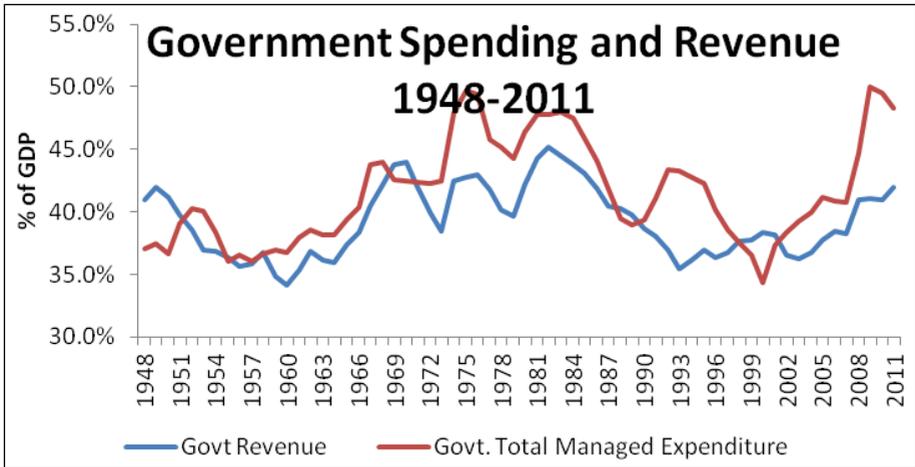


Diagram 1, Government Expenditure in the post-war period and most recently (House of Commons Library, 2013, data from the Office of Health Economics)

The next important question is to consider how these increased government budgets are funded.

The following graph takes the data from the first graph and then plots the proportion of GDP raised in taxation in order to meet the costs of the government's enhanced public expenditure programme.



Graph 2: Government spending revenue, 1948 - 2011 (House of Commons Library, 2013, data from the Office for National Statistics Series ANBT (Receipts), EBFT (Expenditure), CDID (GDP))

The picture that emerges from this graph, therefore, can be used to summarise the argument so far. I have not been measuring money totals of government expenditure, but the proportion of GDP it has taken over the post-war period.

The picture that emerges could hardly be clearer. For most of the post-war period, and most definitely not just since the recent debt crisis, governments have failed to raise enough revenue to cover the cost of the programmes they offer voters. So who then were the guilty men, who, as politicians, have imbued a “money grows on trees” mentality among the electorate? It is to this question I now turn.

Fifty of the sixty four years since 1948 have recorded a deficit in the Government's account, i.e. Government expenditure was not covered by tax revenue. During these 64 years the Conservatives have been in power for 34, Labour for 28 and the Coalition for 2.

- Of their 34 years in power the Conservatives have recorded deficits for 30 of those years (10 of which were inherited).
- Of Labour's 28 years in office 21 have recorded deficits (12 of which were inherited).
- The Coalition's 2 years have similarly recorded deficits, although the deficit was inherited.

So we have a broad picture on the deficit years with one surprising finding. We recorded earlier the Conservative's worry that the radicals would enter into a public expenditure auction which the Tories would have to match if they wished to remain electorally competitive. Yet the analysis shows that it has been the party that historically evoked the dangers of giving in to voter 'blackmail' who most easily succumbed to this pressure. Worst still, the Tory debt, as a proportion of GDP, has been twice that of Labour.

One issue will increasingly dominate this third period of budgetary politics which we have now well and truly entered. It is that voters, rich and poor alike, are unprepared to accept the tax rates necessary to meet the costs of the goods and services for which they happily vote. This frame of mind, more importantly, is now deeply embedded in the psyche of voters. And, so far, it has been those with the sharpest elbows that have been the first to defend this largesse. Look at the debate on richer pensioner benefits and who is leading the resistance movement? Labour's strategy that greater welfare expenditure could only be secured if middle class voters had their share of the public expenditure spoils has in one sense succeeded only too well. The buying in process has resulted in the middle class being unwilling to surrender their largesse now that overall budgets have to be cut.

The argument so far, then, runs as follows. Britain is a recidivist nation when it comes to running a budget deficit and the information I have presented underscores the electoral challenge of reducing the budget deficit. The government is not simply rectifying a one-off debt. Success on this front calls for a major breach with post-war politics. For here is a political pact that dares not speak its name. All political parties have agreed on deficit financing of a significant part of the winning party's programme and, moreover, this approach has become deeply embedded in our post-war political culture. Kicking this habit will require a degree of political skill shown by no post-war administration, and this particular habit has to be kicked at a time when the current deficit swamps all post-war records. There is, however, no better time to persuade the electorate to abandon the drug and face reality than this economic tipping point.

III

Squaring the Scandinavian Circle

Governments have not found the means for raising tax levels on a sustained basis to match expenditure. Nor have governments been any more successful in pursuing the alternative strategy of reducing public expenditure towards tax revenue totals, except for very short periods of time.

So taxpayers, led by governments, have become accustomed to requesting Scandinavian levels of welfare but are, in return, encouraged by decade upon decade of political dog whistling, to believe that this goal can be achieved by paying American levels of taxation.

So where do we go from here? A new status quo has been quickly established. All the main political parties are now committed to reducing the budget deficit. And as 'events dear boy, events' made themselves felt, the differences between the major parties on how to achieve this objective have become less and less marked. Failure to meet his own reduction strategy timetable has led Chancellor George Osborne to adopt Labour's somewhat lengthier process, although without explicitly saying so. How to achieve this reduction, of a balance between public expenditure costs, or tax increases, remains the only substantive difference between Labour and the Coalition.

I believe a successful budget reduction strategy remains paramount. To weaken here will push up long-term interest rates. Servicing the national debt (already a post-war record if measured in real terms), is projected on current interest rates to take £64.4bn of our national budget in the first year of the new parliament. A one percentage increase in long-term interest rates will add a further £6.2bn to this total. A two percentage increase adds £12.6bn, bringing the total debt repayments to £70.6bn and £77bn respectively. To set these huge figures in context, £71bn is equal to our total defence, police and public order budgets.

So where do we go from here? Is it possible to break out of the current debate that is almost totally concerned with cutting the budget deficit, but giving little or no emphasis on expanding the tax base and how this latter strategy might occur. I believe that there **is** an alternative, to mock that phrase of Mrs T's, but it can only be achieved if other parts of the conventional debate on treasury dominance and control of tax revenue is broken.

To complete the picture let me introduce here another of the fastest growing budgets for which we only have figures since the 1960s. Let me remind you of just how dramatic has been the shift in voters' support for Labour's approach and defence of the welfare state. Historically, welfare has always been an area in which Labour has led the debate and has commanded voter loyalty by very clear majorities. That advantage

now belongs to the psephologists' history books. A first move in regaining our historic lead must be to set out clearly what we mean by our use of the term 'work will always pay', or what our voters and potential voters mean by the term. At the moment there is clearly a major difference here. We then need to move swiftly on a major welfare reform strategy which works with rather than against the grain of human nature, beginning this exercise with the government's proposed cap on welfare expenditure.

The overall benefit cap, as the Chancellor likes to call it, is a means-tested benefit cap. It is an astute political move. Poll after poll shows that it is a dislike of means-tested benefits which are given if someone can prove need. This fastest growing part of the welfare bill symbolises what the public most dislike in a something for nothing welfare society.

So the move to exempt contributory insurance benefits is the right one in that it reinforces the common decency sentiments that are such an important part of the popular politics of voters, though, sadly, less so of politicians. But it is also one that, far from being a trap for Labour, in reality provides a springboard for recapturing the support we once had amongst voters on welfare. How might this be done?

To begin a new debate, this lecture looks at these three biggest drivers of rising public expenditure: health, welfare, and social care and asks if there are reforms in financing both of the sectors that voters might be prepared to consider if the reforms were set within a new tax contract. This reframing of the debate will require the offering of a very different welfare reform programme than that which has been put in front of voters by the two main parties for all but one of the general elections since the ending of World War II. And that welfare reform programme will necessarily have to rest on a very different set of assumptions to those that have increasingly underpinned Labour's welfare strategies during this period. Financing health and social care likewise offers a chance of opening up a new debate on health politics.

In his 2012 Autumn statement, the Chancellor announced a cap on benefit expenditure.⁶ The Chancellor went on to qualify the range of his welfare benefits ceiling by limiting it to means-tested welfare which, it is important to remember, is the expenditure least liked by taxpayers and claimants alike. But first the politics of the welfare cap.

The Coalition Government's benefit cap has a political as well as an economic goal. The economic goal was obvious; it was to put some control on what has been the fastest growing and largest part of the Government's budget. The political goal was rather different. It was to trap Labour into appearing again as the welfare party rather than the party for people in work. We need to be seen as both.

⁶ Chancellor's Autumn Statement delivered on 5 December 2012, <https://www.gov.uk/government/speeches/autumn-statement-2012-chancellors-statement>

Labour should seize with alacrity this challenge posed by the overall benefit cap. We should likewise readily embrace the division the Chancellor has made through his exemption of national insurance expenditure, and capping only means-tested welfare. Here is the launch pad for a truly counter-revolutionary welfare strategy. Our response should signal within the two year run up to the next election that our aim is well and truly to jump ahead of the Coalition, thereby ending the current approach whereby we effectively let the government set the parameters of our welfare reform agenda. Our aim must be to recapture welfare as an area where voters look to us to represent their views. To do this we must clearly represent politics that reinforce the moral economy by which most of our voters live their lives.

A something for something welfare society

Voters are in no mood to pay increased welfare costs if most of the increase goes to finance means tested benefits. Where, I believe, they are willing to enter into a new contributory contract is on the financing of national insurance benefits – in particular pensions, unemployment pay, and I would also suggest, a new insurance scheme to cover care.

To build a new contribution contract with voters will require politicians to change their views. No mean challenge. There is little chance that the electorate will agree to increased contributions if the same governance arrangements for national insurance remain in place. This is no bad thing. Voter resistance to this status quo gives Labour the chance to rethink the governance of a national insurance scheme in a way that would engage voters and would meet the needs of today's very different society.

I propose that, over this next six months, the Labour Party commissions work on how a fundamentally restructured national insurance scheme could work, in terms of finance, ownership and membership. This would involve a legal framework to cover the role, responsibilities and powers of the contributors on the one hand and new insurance mutuals on the other.

The principles and governance arrangements could mirror those of the John Lewis Partnership. These should be the starting point for our work. Here two Boards run side by side: one that manages the business and the other that gives the membership its power to set direction to the company whilst holding its chief executives to account. The only power the 'membership Board' does not have is that of selling the business and thereby terminating the partnership. Likewise the new insurance mutuals should have an executive board that carries out the policies decided by the membership boards. The membership boards would have the power, like the John Lewis board, to direct policy and hold the executives to account and, in extreme circumstances, to remove them but, also, like the John Lewis board, they should not have the power to dispose of the scheme's assets without Parliament's approval.

Over the next six months, work should be undertaken to map out how each of these mutuals would work, starting with their terms of reference and governance structures. The terms of reference for the pensions mutual might cover, for example, whether it should have the custody of what is known now as the state retirement pension, as well as being given the task of administering what will become the new single pension. How would this pensions mutual operate with its own funds and revenue raising powers? What check might parliament wish to place on the use of these powers, i.e., that they are not used to undermine any government's macroeconomic policy, say, by increasing contributions as the economy enters a downturn. This would raise questions about the powers mutuals would need to have to build up reserves to prevent any such emergency action. Likewise, for all mutuals we need to consider what powers they should have to initiate debates with their membership about, say, the level benefits as well as their right to debate and seek approval for making the drawing of benefit more conditional? Such an enquiry would also consider the obligations, rights and benefits of contributors.

Likewise, we should consider how the German insurance long term care pension scheme works, what are its strengths, and which elements of this scheme we could usefully transfer as the starting blocks for a British scheme. How has their scheme worked out in practice? What are the funding arrangements? What are the gate-keeping arrangements for qualifying for this benefit? And what are the current pressures on the entitlement rules?

It won't be the first time that we have looked to Germany for inspiration. Lloyd George was keen to learn what he could of their workings whilst combining reforms to fit the friendly society/mutual society model that then operated in this country. Now, thanks to those early initiatives, we have a long history of working unemployment insurance schemes. What are the major lessons from our past that need not be learned again?

Work should be commissioned from the government actuary (the leader of the opposition should request this) setting out the costings for the new schemes within the following parameters:

1. The aim of the Government should be to provide an adequate minimum pension, on top of which contributors would contribute further, and ensure that the legal framework is in place for linking benefit to contribution. To this end, the Pensions Mutual would request that the contribution costs for delivering the government's £150 per week single pension proposal and how work on this costing might to some extent be offset by the government's savings on means-tested provision. Further, what calculations has the government made that the insurance records of contributors will be pooled, in part, to cover the costs of this new scheme? The government actuary should also help this new welfare reform initiative by mapping out what public funds are going to secure pension

entitlements above the new minimum guaranteed level. The pensions mutual would then have detailed costings it could use in public debate. What part of this cost would be covered by the withdrawal of tax relief on contracted out pension contributions?

2. Similarly, the government actuary would provide minimum costings for a care pension that would cover all the nursing costs of patients deemed eligible. No one should pretend that the gate-keeping to this new insurance benefit will be easy, but neither is the safeguarding of access to current provision. The gate-keeping, or rules of eligibility, will determine costs along with the numbers projected to qualify on these terms. These net costings could be undertaken on the basis that what remains of the revenues used in phasing out pension tax relief on contracted out contributions would be placed in this mutual.
3. The government actuary should also be asked to cost a new scheme of unemployment insurance that covers the following reforms:
 - a) The new scheme would pay benefit at twice the current level of means-tested jobseekers allowance for the first six months and then at the current JSA rate for a further six months.
 - b) Members would be entitled to draw from their account a retraining grant from the fifth week of unemployment.
 - c) Trustees would have the power to extend benefits so that courses begun before or up to the fifth week of unemployment can be completed. This discretionary power will be dictated by the length of time members have made contributions – the longer the contributions record, the greater the number of weeks of training benefit would be available – together with unemployment pay.

Work on the governance of the schemes could run in parallel with the government actuary's work. And, in summary, what other areas should be initially covered? Here is the briefest outline to further work.

The formal governance of the schemes will fall to a series of governors, elected on a universal suffrage basis by the entire membership. Eligibility for voting will be determined by eligibility for all benefit. The eligibility rules should be based on contributions, service or function and residency.

The government actuary will help set the contribution requirements so that the schemes are financially viable and set out the stages to which the nation can move to covering these costs. Costings would consider any exchequer contribution that takes

into account a share of means tested benefit savings. Any government contribution should also consider how such payment can further make the new contributory basis more redistributive than it currently is. For example, to even out benefit against lifetime contributions for those who withdraw temporarily from the labour market for caring. The Government Actuary's costings will also have to take into account how the carrying out of functions, such as caring, and caring for whom, should be covered by actual contributions paid into the scheme over the total period in the labour market, and again the share of this cost between contributor and the Exchequer. In other words, what are the options here for an Exchequer contribution, and how would this responsibility for covering the contributions of those that qualified by function be divided between the Exchequer and the membership?

A residency test should be applied to all new members. A minimum ten year period is suggested, with youths, who experience unemployment early in their career, becoming eligible on their parents' insurance record or the insurance record of other close members of the family.

This principle of people's benefits being linked to / covered by their own or relatives' contribution is a sound one recognised by Beveridge, which could be complemented by the principle of calculating lifetime contributions for those who withdraw temporarily from the labour market for benefit.

The contributory agency could continue to function as it does now. Its governance would however become shared with each of the three new mutuals.

An NHS Mutual

The political goal that Labour must embrace is twofold. The most important is to affirm that the NHS is and must remain a provider of health care free at the point of use. It sounds simple, but it is a long way from where Labour's heart, as opposed to its head, is. Nor does Labour's current position of unquestioning defence of the status quo reflect where most voters are. Our position is perceived as being wedded to a model of delivery through the existing NHS organisation, and that this is the only means of achieving the overall objective of a service free at the point of use. How we deliver the goal of free at the point of use, is for voters and for myself, a secondary matter.

The second issue we need to tackle is how best to control a bill that will continue to grow. Paul Johnson at the IFS calculates that if health and pensions only, (excluding other forms of welfare), grow at the current rate, these two budgets alone will account

for half of all government expenditure by 2060.⁷ The politics involved in reaching this position will prove, I believe, unacceptable. There is only so far a civilised country can go in cutting its crime agency, for example, and some would argue that we are some way from qualifying as a country under this particular heading. Likewise, what kind of country will we become if we begin seriously to reduce our education budget?

These questions are ones that must be settled strategically; although separate, they must be related to the equally important task of ensuring that each £1 of taxpayers' money is spent with a clear view on outcomes required from that expenditure. This priority on outcomes has to trump the more conventional defence that this is how we have traditionally spent. Financing a health service free at the point of use requires radical reform if more money is to be forthcoming, and how to be achieved by inducing a sense that the service has to be paid for. The present system will increasingly be unable to meet these twin objectives.

Voters believe that they currently pay for the health service, which indeed they do, but not in the way they believe. When questioned, voters believe that the NHS costs are covered by their national insurance 'stamp', as it is still occasionally referred to. It is true that Gordon Brown's most popular move was to increase national insurance by 1p to provide an enhanced budget specifically for the NHS although, initially, Gordon was terrified at taking this move. Yet voters strongly supported this hypothecation.

In addition, Gordon's initiative set the most useful precedent by applying the 1p sum to employers as well as to employees who were levied for every £1 of earnings and not up the ceiling which currently determines the maximum national insurance contribution.

Now is the time to make the most major change in NHS financing. The money currently comes from general taxation. This source of financing is not sustainable over the long term without destroying the budgets of other key government services that are part of a civilised country. Most of these budgets are relatively unpopular and it is their necessity and unpopularity that should command financing from a general tax base that members of a political community have to meet.

National insurance based welfare and health are different. These are areas where taxpayers generally want to see greater funds spent providing these funds are not pilfered by politicians. Here again the new tax contract comes into play by increasing health funding in exchange for sovereignty over the funds.

⁷ Paul Johnson, 'The UK Public Finance Challenge: Presentation to Wales Public Services 2025', February 2012, *IFS*, p.20, <http://www.walespublicservices2025.org.uk/wp-content/uploads/2012/02/PS2025-Paul-Johnson-IFS-slides-9-2-12-.pdf>

A new health mutual should be established along the lines of insurance mutuals. Contributions should be levied along the same lines with function also qualifying as well as ten years of residence, which would apply to all adults.

The advantages of such a move are considerable. It would ensure a buoyant source of income for future NHS expenditure. It is based on the belief that bills have to be met, but with the mutual openly discussing with its members how the increased costs of ensuring an NHS free at the point of use is combined with an NHS that remains at the cutting edge of medical advance. This approach will also help introduce the basis of a universal service that has also to grapple with a differential impact of inflation on the services that it provides.

IV Conclusion

Running a budget deficit is no new experience for British governments. Most of the post-war period witnessed a failure by government to raise revenue to match expenditure. Two characteristics distinguish the current budget crisis: it is much larger than ever before and, this time round, many other western countries have similar, serious deficits.

The politics of the budget have currently developed along the following curious lines. There was, at first, a difference between Labour and the Coalition whereby Labour argued for a slightly longer period over which the budget deficit would be eliminated in order to allow some space for stimulating growth. This is now the position of the Coalition, although they at first stoutly resisted Labour's argument. The only difference of substance between both sides centres on the balance between public expenditure cuts and tax increases.

The parties have fought themselves almost to a standstill in their trench warfare on public expenditure. The proposal I make is for an alternative approach, namely, seeking the means to increase the tax base. This will not be easily achieved, or indeed can be achieved without changing, in the most fundamental way, the rules of the game.

It is possible to persuade the electorate that, with constraints such as an ageing population and that population living longer, pensions, health and care bills are bound to increase. That increase could be met by cutting back severely on other areas of government expenditure with all the ghastly consequences that approval would entail. I have argued that there is an alternative to this example of the politics of despair. That alternative centres around the seeking a new tax contract with taxpayers whereby they agree to pay a somewhat greater proportion of their squeezed incomes, but this proposal will never be taken seriously unless taxpayers are offered ring fenced control over their funds, to which they have contributed.

The final outcome, I have argued, will be determined not simply by political will, but also by what the government actually estimates the costs to be, and how these might be phased in over time. The conventional wisdom on welfare reform can be turned on its head. It is possible to have a winning welfare reform ticket using the budget crisis as a means of securing a popular reform programme. But what began as the building of a successful and popular welfare reform programme becomes also, simultaneously, a constitutional reform programme. The four proposed national mutuals redraw the boundary between individuals and the government. Collective provision is advanced but not of the centralised state ration book variety. A new tax or social contract is agreed, but only if the sovereignty of the funds remains with the contributors. This

Frank Field

welfare and health reform programme fits first into the new budgetary politics of first restoring balance in the national accounts and, secondly, also for the first time in over sixty years, helps taxpayers fund an acceptable way of paying for the goods and services they wish politicians to provide.

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In *Working Welfare: Contributory Benefits, the Moral Economy and the New Politics*, Frank Field proposes a return to the contributory insurance principle, prompted by the new economic and fiscal thinking, according to which public spending must be kept within 40 per cent of GDP. It would help meet rising aspiration at a time of demographic change and longer life. Above all it would re-invigorate the moral economy in which people are rewarded for hard work, saving and thrift.

Field proposes that contributors should own their benefit and that the funds should be managed by new mutuals under their own elected boards. Government should limit its role to establishing the legal framework, and ensure benefit is linked to contribution.

In her introduction, Politeia's Director explains that Field's proposal reflects the principle of contributory insurance on which Beveridge built in his wartime blueprint for Britain's Welfare State.

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