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A New Beveridge: 70 years on - refounding the 21st century welfare state

By Chris Skidmore MP

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'The citizens as insured persons should realise that they cannot get more than certain benefits for certain contributions ... should not be taught to regard the State as the dispenser of gifts for which no one needs to pay'

The Beveridge Report, 1942

Executive summary

- It has been 70 years since the publication of William Beveridge's seminal report which formed the basis of the welfare state and shaped our public services. Since then, Britain's demographic landscape has been transformed, most notably with an ageing population becoming the single greatest challenge that we face in the twenty first century. Over the next few decades, the current welfare state will become unsustainable. We need to come to terms with the fact that the universal welfare state is over: a radical refounding of the relationship between the individual and the state is necessary. Only by returning to Beveridge's original principles, of the individual taking greater responsibility, alongside the state establishing a 'national minimum' will we be able to ensure that the most vulnerable in society are effectively looked after alongside ensuring that the nation remains financially solvent.

- A 'new Beveridge' means restoring the contributory principle in the benefits system, and ensuring that it remains a safety net as intended, not a way of life. When considering what 'the net' might be, we need to face the fact that the net has become too wide and must be more effectively targeted at those in need. The number of people who are net recipients from the state has now passed the 50% mark, for a start, we should target reducing this back down to 40%.

- People under 25 receive unemployment benefits without having a long record of contribution. We should replace out of work benefits for this group with a Repayable Allowance, which would require them to repay what they received once in work and earning above a certain amount.

- As an ageing population will mean that many more people will be living longer, we will no longer to be able to sustain a universal approach to pensioner benefits. Money will need to be more effectively targeted to those in need, rather than the current situation where millionaires can collect the winter fuel allowance. Just as the government has removed child benefit from the wealthiest households earning over £50-60,000, so we should do the same with universal pensioner benefits, meaning that the richest pensioners with separate incomes over £50,000 should no longer receive winter fuel allowance, a free bus pass and free TV licenses.

- At the same time, we should be rewarding those who do the right thing and save independently for potential future care needs. In order for the state to incentivise individual responsibility, tax breaks for care insurance schemes should be created.

- The welfare system needs greater transparency. Everyone should know exactly how much they have contributed, and how much they have benefited. A long record of contribution should offer individuals more advantageous terms if they are required to claim unemployment benefit.

Introduction

On 20 November 1942, the publication of the Beveridge report heralded a radical change in our provision of welfare and public services. 70 years on, the challenges we face are very different from war-torn Britain. Yet, in many ways, we face the same crisis of how to provide for an entirely new landscape in the twenty-first century.

When the great liberal architect of the welfare state, William Beveridge, was first offered the job of chairing a wartime committee to coordinate social insurance, he wept tears of disappointment that he had not been given the role overseeing manpower that he craved. Were he to look at the 21st Century fruits of his labour, at least where welfare is involved, it seems likely that he would be moved to even greater despair.

Beveridge was not the socialist Robin Hood figure of modern left-wing legend. Rather he was an austere economist, versed in the principles of contribution and industry. Beveridge's 1942 report, *Social Insurance and Allied Services*, published seventy years ago this month, committed to building a system of social insurance that would reward the industrious, not punish them in favour of the indolent.

The welfare state that he envisaged was one constructed around the contributory principle of National Insurance, paying into a system to indemnify individuals against future need. In recent time we have drifted away from this sensible concept- National Insurance funds have become another resource for government spending to draw on - eroding Beveridge's ideal.

There is substantial support across the political spectrum for a return to

Beveridge's original principles, yet many politicians still labour under a misapprehension as to what these principles are[1]. Even Liam Byrne's reading of it is that the only way to restore the contributory principle is for the state to spend more. Indeed the last 50 years of the welfare debate have been littered with appeals to the authority of Beveridge. This report will examine what Beveridge intended for the welfare state, and offer a way to rediscover the principles that he was committed to.

[1] See Liam Byrne's speech to the SMF, http://www.smf.co.uk/files/4413/4305/9518/Third_Beveridge_Speech_-_July_2012_-_Final_Draft_2.pdf

Incentive, opportunity, responsibility: The original Beveridge

Beveridge's original aims and ambitions were very different from what the welfare state ended up being. If we could return to these founding principles, we may be able to ensure that we can foster greater individual responsibility at the same time as ensuring those in greatest need are cared for.

The introduction to the Beveridge report explained the way that the new system should operate, in abstract terms:

"Social security must be achieved by co-operation between the State and the individual. The State should offer security for service and contribution. The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family."

It also made a clear appeal to duty and obligation on the part of the beneficiaries:

"The higher the benefits provided out of a common fund for unmerited misfortune, the higher must be the citizen's obligation not to draw upon that fund unnecessarily."

Underlying the principle of benefit comes a duty on the part of the individual to bear responsibility for their own life and wellbeing- with the state serving as a guarantor of this freedom rather than a supplier of it. Crucially, Beveridge also wanted to ensure that there was a carrot and a stick:

“The correlative of the State’s undertaking to ensure adequate benefit for unavoidable interruption of earnings, however long, is enforcement of the citizen’s obligation to seek and accept all reasonable opportunities of work, to co-operate in measures designed to save him from habituation to idleness, and to take all proper measures to be well.”

For the contributory principle to function, Beveridge also believed that this ruled out means tests as well, feeling that people would object to being punished for saving independently if it then meant they were ineligible for benefits. His axiom was that:

“Payment of a substantial part of the cost of benefit as a contribution irrespective of the means of the contributor is the firm basis of a claim to benefit irrespective of means.”

Indeed this is the basis of the two options that Beveridge sets out- between taxation and insurance contribution- and as he explains, the reason for him choosing the latter.

‘The distinction between taxation and insurance contribution of that taxation is or should be related to assumed capacity to pay rather than to the value of what the payer may be expected to receive, while insurance contributions are or should be related to the value of the benefits and not to capacity to pay.’

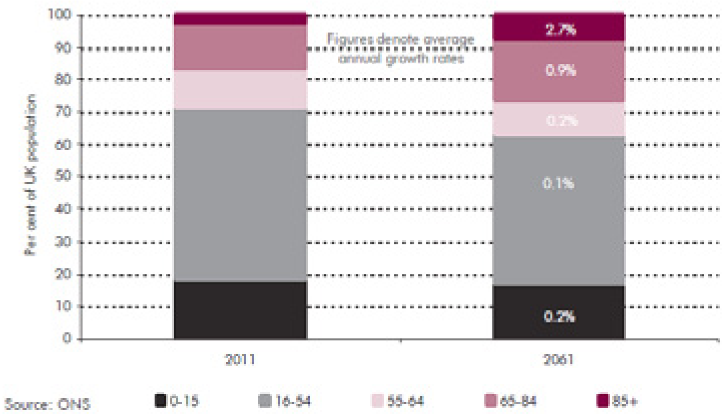
The abandonment of the contriubutory principle

The contributory principle - a central tenet of Beveridge's original report - has long been discarded, as the welfare state has burgeoned. As a result, there has been an erosion in faith of what tax is spent on and used for. Greater transparency is needed to show what is spent.

Successive British governments have been complicit in eroding the link between contributions and payments, whilst simultaneously convincing individual taxpayers that it still exists. Many people still believe, even now, that if you pay your National Insurance contributions, you have built up an entitlement to benefits, healthcare and so forth. This is only a partial truth. Pensions aside, only £10 billion of benefits are now contributory, the rest bearing no relation to an individual's record of paying into the system.

National Insurance has gone from being the lynchpin of the welfare state to just another means of raising government revenue to fund day-to-day spending. National Insurance contributions and taxes paid by working people today are used to pay for pensions for the retired. This is unsustainable in its current form when you consider the projected changes in our population - with the proportion of working age people shrinking considerably.

Chart 3.1: Projected changes in the size of population age groups



[2]

One of the most frustrating aspects of Gordon Brown's 13 years of running our economy was his propensity to use the tax and benefits system to take money from people, then return it to them based on various formulas, as in the case of tax credits. On 1st April 2012, 5.8 million families were either tax credit recipients, or receiving the equivalent child support through benefits.[3] Equally on child benefit, 7.9 million families currently receive this at a total cost of £12 billion.

Ideologically speaking, this was aimed to tie as many people into some form of government spending as possible. Brown cleverly constructed an ersatz Beveridgean principle, whereby affluent people received entitlements such as child benefit, and felt it was their due because they paid high taxes. A clear case of giving with one hand, and taking away with the other.

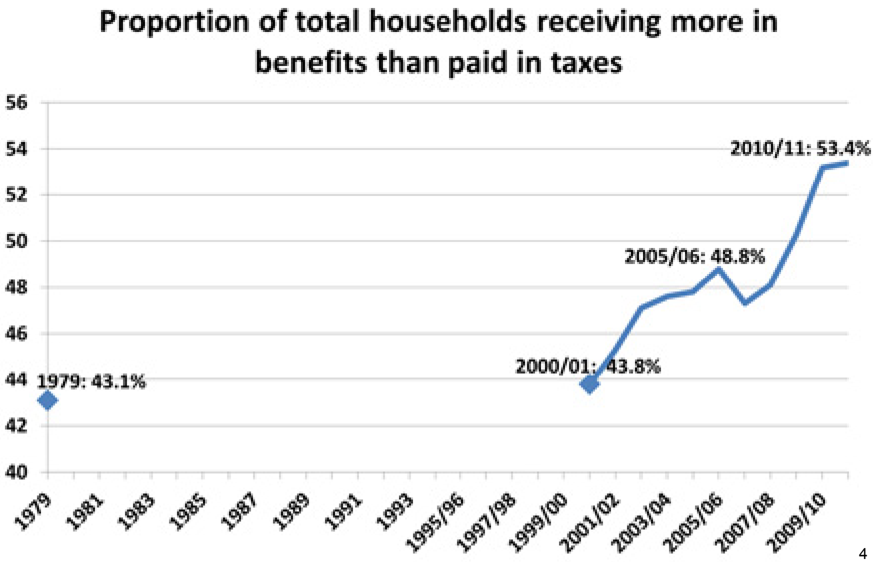
[2] Office for Budget Responsibility. Fiscal Sustainability Report. July 2011
[3] HM Treasury. Child and Working Tax Credit statistics, April 2012 p8

A contributory system should draw a direct link between taxes paid and benefits received- the same way that a private pension fund shows how much you have paid in and how much you can expect to receive when you need it.

This is the point Beveridge made when comparing taxation and insurance, with National Insurance now constituting an additional income tax, rather than a contribution with a defined benefit. Beveridge pointed out that financing social security through taxation breaks the contributory principle, even if it is done through a hypothecated tax.

The widening net

In recent years, a troubling phenomenon has been observed, the increasing number of people who are net beneficiaries from state spending. According to the Centre for Policy Studies, in 2010/11 53.4% of households received more in benefits than they paid in taxes, compared to 43.8% in 2000/1 and 43.1% in 1979. Again this constitutes an erosion of the contributory principle- the proportion of people who are overall funders of the welfare state is diminishing.



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[4] Ryan Bourne, The progressivity of UK taxes and transfers, Centre for Policy Studies Statistical Factsheet 11. October 2012

The CPS cites the various taxes and benefits – according to the ONS- as:

Direct taxes: *Income tax less tax credits, employees' NI contributions, Council Tax less Council Tax Benefit.*

Indirect taxes: *VAT, Duty on tobacco, Duty on beer and cider, Duty on wines & spirits, Duty on hydrocarbon oils, Vehicle excise duty, Television licences, Stamp duty on house purchase, Customs duties, Betting taxes, Insurance premium tax, Air passenger duty, Camelot National Lottery Fund and 'Other'.*

Intermediate taxes: *Commercial and industrial rates, Employers' NI contributions, Duty on hydrocarbon oils, Vehicle excise duty, 'Other'.*

Contributory cash benefits: *State pension, Job seeker's allowance (Contribution based), Incapacity benefit, Widows 'benefits, Statutory Maternity Pay/Allowance Benefits.*

Non-contributory cash benefits: *Income support and pension credit, Child benefit, Housing benefit, Job seeker's allowance (Income based), Carer's allowance, Attendance allowance, Disability living allowance, War pensions/War widows' pensions, Severe disablement allowance, Industrial injury disablement benefit, Student support, Government training schemes, Tax credits, other non contributory benefits.*

Benefits in kind: *Education, National Health Service, Housing subsidy, Rail travel subsidy, Bus travel subsidy, School meals and Healthy Start Vouchers.*

The ONS also provides a breakdown for 2010/11 by quintile:

Summary of the effects of taxes and benefits on ALL households, 2010/11

Average income per household (£ per year)	**Quintile groups[1]**					
	Bottom	2nd	3rd	4th	Top	All
Cash benefits	7 040	8 322	6 655	4 098	2 115	5 646
Benefits in kind	7 749	7 584	7 459	6 825	5 826	7 089
Direct taxes	-1 271	-2 510	-4 755	-9 002	-19 727	-7 453
Indirect taxes	-3 365	-3 741	-4 770	-6 033	-8 339	-5 250

Source: Office for National Statistics

This level of state spending on half the population cannot be sustained. Equally, it is a perverse relationship that has seen a large proportion of the population become slaves of the state rather than pay into the state to serve their needs. The government's aim should be to reduce the amount of net beneficiaries, as a proportion of the population.

Recommendations

I - Net contribution index

Creating a measure that will track the growing dependency upon the state - with its sole aim being to reduce that dependency over time.

The government should look at introducing a Net Contribution Index - a new target based on the proportion of individuals who are net beneficiaries from the state. Return again to the fact that in 2010/11 53.4% of households received more in benefits than they paid in taxes, compared to 43.8% in 2000/1 and 43.1% in 1979.

It should not be unrealistic to aim for a 40% target in the near future, with potential to revise this further downwards depending on progress. It is otherwise difficult to maintain the social solidarity necessary for redistributionist government policies. The old adage that *'a democracy can only exist until the majority discovers that it can vote itself largess out of the public treasury'* seems particularly apposite here.

Not only should everyone know exactly how much tax they have paid, and where it has gone, but they should also receive an annual breakdown of how much they have received in both cash benefits, and benefits in kind. Perhaps some form of contribution tracker would also be desirable - as with a pension fund - so that each individual could tell at a glance how much money they have paid into the system over their lifetime. This would hopefully lead people to question the Brownian trick of hiding huge amounts of taxation with comparatively petty handouts.

II - The repayable allowance

Like tuition fees, unemployment benefits given to people who have no record of paying tax should be viewed as a loan that should be repaid over time.

When the present government came to power the overall cost of welfare spending stood at around £180 billion, the single largest area of government expenditure. The renewal of Beveridge's contributory principle needs to be a means to bring this down to a sustainable level, not a reason to try to legitimise further expansion.

One flaw in National Insurance at present is that payments protect individuals against future need without any accounting for what they might already have received from the state in the past. We therefore propose a radical reform to unemployment benefits for the 21st Century, though morally it is a continuation of what was originally intended.

For individuals who have not yet paid National Insurance contributions for a certain period, five years say, unemployment benefit should be in the form of a repayable loan. An unemployed teenager would still receive the same amount of cash as now, for example, but they would be expected to repay the value once in work. Turning an entitlement into a loan would mean that people would still be supported whilst out of work, but would have an additional incentive to find work rather than allow the debt to build up.

Like tuition fee repayment, this would not mean huge repayments, and the repayments required would be tapered by income to ensure that it would still be better off to be in work and paying taxes than languishing on the dole.

It cannot be right that people can be stuck on unemployment benefits for many years, and never reach a point where they have contributed enough to balance out the debt to the taxpayer that they have incurred.

In August 2012, there were 441,800 people aged 18-25 claiming Jobseeker's Allowance at a rate of £56.25 per person, per week. This means a cumulative cost of £24,851,250 per week. Were this rate to be maintained consistently across a year, that would mean £1,292,265,000 per year. Even repaid in small amounts over a number of years, with a low rate of interest to allow for inflation, this would be a relief to the welfare budget of £1.3 billion.

Even if someone were unfortunate enough to be out of work for the entire seven years between 18 and 25 the total sum repayable would be £20,475- considerably less than the tuition fees loan repayable by many of his or her peers.

III - Wealthy pensioners

We must one day face the reality that, with a dramatically ageing population, universal benefits to wealthy pensioners are unsustainable.

Given that average life expectancy was 69 in 1942, Beveridge's plan for pensions, essentially modelled on four years of pensionable retirement, did not account for the massive rise in life expectancy that we have seen over the last 70 years. It is therefore reasonable that the present government has legislated to increase the State Pension Age to 68 by 2020, and to equalise it between men and women.

However, the fact remains that, as with child benefit, it is perverse to effectively reimburse individuals small amounts of tax that they have already paid, particularly the wealthiest. If we are to make the case that people earning over a certain amount should not receive child benefit as a result, then it is only logical and fair to apply the same thinking to pensioners' benefits. Already, there is a growing acceptance that winter fuel payments for millionaires are perverse and unfair. Charities such as *Surviving Winter* are already benefiting from people voluntarily giving up their winter fuel payments for those most in need.

We should look to remove all universal benefits, apart from the state pension, for any pensioners with an individual income of more than £50,000 per year, as with child benefit. It cannot be right that a government minister like John Prescott can retire with an annual final salary pension of over £60,000 per year, yet still receive further handouts from the taxpayer every winter. It is equally wrong that 671 members of the House of Lords qualify for the winter fuel payment.

Once again, although it might be argued that this goes against the contributory principle, we must return to what Beveridge meant by a 'national minimum'. There are 100,000 households with a retirement income of more than £100,000 a year, and 988,000 over 65s in Britain who have assets worth at least a million pounds. Beveridge surely did not intend for them to receive additional cash simply on account of age.

It is a tough case to make - no-one would disagree that pensioners who have worked hard and saved in order to secure their retirement are to be praised, not penalised. Yet as the population ages and changes shape the welfare system must as well if we are to ensure its longer term sustainability.

We should be honest and strong-minded enough to say that the state pension is the reward for their lifetime contributions, not the assorted sweeteners and cash payments that Gordon Brown was so fond of offering. Uncomfortable truths make for difficult politics, but the first government to be brave enough to dispel some of the welfare state’s most pernicious myths will be setting a promising precedent.

IV - Care savings

We should return to Beveridge's aims of fostering individual responsibility and his belief in 'incentive' by re-establishing a contract between the individual and the state that will allow for individuals who wish to purchase care insurance for old age to be allowed tax-breaks to achieve this.

A contributory principle does not just mean that people should see benefits in paying into the system, but also that people saving are clearly rewarded for doing so.

The welfare state that Beveridge planned was never designed to account for long term social care. There is also no appetite for large tax increases to make social care available to all, on the same terms as the NHS. At present it is the tax paid by people of working age that funds a great deal of care. This is unsustainable when you consider that by 2030, the ratio of working people to those aged 70 and over may well have fallen from 5.3:1 (as in 2010) to around 3.7:1. It is not practical to simply say that the state can continue to pay more and more, particular given the strong arguments about inter-generational inequalities that exist.

Inevitably then, the largest share of increased expenditure will have to come from individuals and their savings, and the government needs to encourage this. There must be a much greater range of tax-free financial products to allow people to put money aside for future needs without being penalised.

At present the private insurance industry has struggled to develop suitable schemes and financial products due to the unpredictability of care costs. The Free Enterprise Group has already proposed the introduction of Care ISAs that would work like a regular ISA, except that the maximum investment could be far larger, to the value of the cap on care costs for example. Access to the ISA could then only be spent on care services within a family.[5]

This is a policy that involves contribution, personal responsibility and

[5] Free Enterprise Group, Policy Bites, p11

individual savings, rather than government support and subsidy. It is in essence exactly what Beveridge had in mind when he wrote that, *'The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family'.*

V - A reward for contribution

Restoring the contributory system to welfare payments would reward those with a record of work and restore confidence in the system that, just with other insurance products, the more one pays in, the greater protection will be provided.

According to the government's figures, there are around 5mn. people of working age receiving out-of-work benefits, half of whom receive incapacity benefits. The sine qua non of welfare policy is to assist as many of these people into productive work as possible.

The £5bn Work Programme registered 837,000 people in its first year, the majority of whom were on Jobseeker's Allowance. One of the challenges it has faced - according to providers - is that the Job Centre has not transferred enough of the hardest to help people on long term benefits.

At present, those aged 18-24 are required to attend the Work Programme after claiming Jobseeker's Allowance for 9 months. For those aged 25, it is 12 months, and those classed as 'seriously disadvantages in the labour market, 3 months.[6]

A long record of contribution should offer individuals more advantageous terms if they are required to claim unemployment benefit. People over 25 without a contribution record should be required to join the Work Programme or an alternative welfare-to-work scheme within 3 months of beginning to claim- but a record of contribution should delay this requirement. As a rule of thumb, 5 years of contribution should mean six months of unconditional unemployment benefit, 10 years a year, and 20 years two years. This would give a much fairer deal to people who unexpectedly lose their job later in life, having already paid considerable sums in tax and National Insurance.

This would also fulfil Beveridge's tough minded vision. Beveridge anticipated the modern trend towards greater conditionality and was

[6] Department for Work and Pensions, The Work Programme p6

decidedly radical on benefits for young people. He recommended that there be no unconditional benefit whatsoever for ‘boys and girls’, that any period spent out of work should be an opportunity for further compulsory training.

Conclusion

Our welfare system is immensely unfair in the discrepancies that it creates. Unemployment benefits should effectively be a pay-out from building up contributions, contributions that insure you against future periods of joblessness. This in itself removes the idea of welfare dependency becoming a way of life. It is self-evident that a man who loses his job at the age of 50, having worked since the age of 18, has put more into the system than an unemployed teenager.

When the state gives Jobseeker's Allowance to young people it is making an investment in their future. This is particularly the case when they have not yet contributed through the National Insurance system. It is also fair to ask more from people who have not contributed, and allow more license to those who lose their jobs after a long record of tax and N.I. payments.

The universal system of benefits to the wealthiest in society must also end if public spending is to remain sustainable, with a shift towards more targeted interventions. This is tough politics but sound economics.

Saving for long-term care needs to be encouraged through the tax system- as it was never include in Beveridge's blueprint. New tax-free savings products will encourage individuals to take responsibility over their future, rather than relying entirely on the state.

We should look to reduce the proportion of households that are net recipients of benefits. It is troubling that a household that in 1990 *paid* £1,673 more than it received in benefits now *receives* £4,589 more.

As the current government has found, welfare reform is seldom simple or straightforward, particularly in times of austerity. But here again, we can take advice from Beveridge:

“But to suppose that the difficulties cannot be overcome, that power of readjustment has deserted the British people, that technical advance has ended or can end, that the British of the future must be permanently poor because they will have spent their fathers’ savings, is defeatism without reason and against reason.”

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