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# The system that lost its way: Social security reform in the United Kingdom

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## Introduction

All social security systems depend on the maintenance of financial equilibrium between the two sides of a fragile equation, with the contributors on one side and the beneficiaries on the other. At a time when the size of the army of contributors is being reduced by the world recession and technological change, while the expectation of life of the vast cohort of beneficiaries is constantly being extended by advances in medical science, it is not surprising that reports of difficulties in financing social security systems are commonplace. But there is nothing commonplace about the situation in the United Kingdom as revealed in the Green Paper on reform of the social security system presented to Parliament in June 1985 by Norman Fowler, Secretary of State for Social Services.[1]

Government expenditure on social security in the United Kingdom is currently running at double the amount spent on defence. Since the Second World War it has grown five times faster than prices, and unless checked will continue to rise steeply for the next 40 years. There are references to changes "made for the best of motives" whose "effect has been to confuse and complicate". The social security system, it is said, "has developed into a leviathan almost with a life of its own". It is difficult to recall an official report with an opening sentence as dramatic as that of the Green Paper: "To be blunt the British social security system has lost its way."

Of course, the British social security system is not the only one to be in trouble at present; and it is hoped that the following diagnosis of the ills besetting it and discussion of the cures proposed by the Government may have a wider relevance.

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## How the system lost its way

As is well known, the social security system in the United Kingdom is based on the famous report made by Sir William (later Lord) Beveridge in 1942.[2] Since the review culminating in the Green Paper has been said to be the most fundamental since the publication of that report, any analysis of the current situation must briefly recount the reasons why Beveridge's plan for social security went astray in the country for which it was designed, when the influence of his ideas was so marked in many other countries.

In the words of the report, the Beveridge scheme was "first and foremost, a plan of insurance – of giving in return for contributions benefits up to subsistence level, as of right and without means test, so that individuals may build freely upon it". But it was set in the context of a wide-ranging programme of social policy reform, involving the State in many obligations and much expenditure. The assumptions without which, according to Beveridge, "no satisfactory scheme of social security can be devised", included such major revenue-financed items as a National Health Service and a programme of family allowances. Further, the tripartite contribution structure of the insurance part of the system involved the Exchequer in paying one-fifth of the total contribution, as well as the actuarial deficiency that would be produced by the admission of entrants over the age of 16. Finally, the safety net of means-tested assistance also had to be financed out of taxation. When it is remembered that during the translation from plan into legislation, the actuarial deficiency was increased by dropping the 20-year transition period for pensions recommended by Beveridge, it will be readily understood how the character of the partnership between individual and State had changed in the four years between 1942 and 1946. In the original plan, the individual was the dominant partner. In the system as enacted, the State played the major role.

Nevertheless, the legislation was still insurance-centred, and the long-established main principle of social insurance, the complete separation of insurance moneys from general government revenues,[3] seemed to have been incorporated. All contributions and Exchequer payments had to go into a National Insurance Fund out of which all benefits and administrative expenses had to be paid. Surplus revenues were to be passed to a Reserve Fund for investment by the National Debt Commissioners in savings bank funds. Unfortunately for principle, the National Debt Commissioners turned out to be a shadowy body invented by Pitt in the eighteenth century whose only active member was the Chancellor of the Exchequer, and savings bank funds were primarily government securities. So when an unexpectedly low level of unemployment resulted in the accumulation of a large surplus in the National Insurance Fund, the money was used to help balance the ordinary budget. One Chancellor loaded the Fund with low-interest stock in pursuit of his pet policy of "cheap money", and his successor slashed both the Exchequer share of the total contribution and the actuarial deficiency payment.

Meanwhile, inflation was eroding the value of the insurance benefits, forcing more and more pensioners to claim means-tested supplementation and adding to the burden on the Exchequer. A vicious circle was therefore created which the Government of the early 1950s sought to break by conducting a review. This was less well publicised than the recent one, and relied heavily on an official inquiry carried out by a committee appointed by the Chancellor of the Exchequer. The story of how this committee, chaired by a man antipathetic to Beveridge and his ideas, changed the course of social security in the United Kingdom, has already been told.[4] Two sentences from its report[5] damned for ever the Government's chances of keeping contributory insurance benefits ahead of means-tested assistance, and the National Insurance Fund separate from government revenues:

> As so much of the cost of national pensions has to be met from general taxation an attempt to provide a subsistence rate for all without regard to need would appear to be an extravagant use of the community's resources. . . . It would be impracticable to operate a pension rate which would make national assistance unnecessary.

Government policy, hitherto based on Beveridge's limited aim of providing a subsistence minimum for all through the scientific application of insurance principles, now addressed itself to a more ambitious, but less easily defined, objective. A White Paper published in 1958[6] spoke of the "natural aspiration that with increases in national wealth the purchasing power of this income which old people receive as of right through the State should not only be maintained but should be increased in real terms as opportunity permits". To raise the necessary finance, earnings-related contributions (and therefore earnings-related benefits) made their first tentative appearance in the United Kingdom. Earnings-relation had been standard practice elsewhere for decades, but whereas other countries used it as a means of keeping contributory social insurance beneficiaries comfortably ahead of assistance claimants, the door to this course had been slammed in the pursuit of the attractive-sounding, but imprecise, policy of "concentrating help where it is most needed".

Such a policy necessitated retaining *de jure* the contributory principle, the National Insurance Fund and the moral right of contributors to regard their eventual pensions as having been earned, while treating *de facto* the contributions as just another form of income tax, and all pensions, whether contributory or non-contributory, as provided by the Government. It was in attempting this difficult feat – of trying to face in two directions at the same time – that the system lost its way.

## The road to confusion

The combination of the accelerated maturity of the system and inflation meant that by 1958 the pension rates had been increased no fewer than five times, and a married man who, together with his employer, could have contributed no more than £200 (even with accrued interest) since contributory pensions were first introduced in 1926, found himself entitled to pensions for himself and his wife having a capital value of £2,650. Since inflation showed no sign of abating, the obvious course seemed to be to drop the concept of the actuarial contribution and revert to the pay-as-you-go financial regime which had operated in the country from 1929 to 1946.

This was all very sensible and above-board, but the next step was less open. Up to and including issue No. 97 (1960), the Government's Annual Abstract of Statistics had shown expenditure on national insurance benefits in a separate table from government expenditure. From issue No. 98 (1961) onwards, it was all lumped together under the general heading of government expenditure on social services.

The separate identity of the national insurance contribution was the next thing to be eroded; not in law, because accounting arrangements kept the various components apart, but in public perception, since all the elements were included in one adhesive stamp. In 1965 the contribution was increased to provide redundancy pay for displaced (not necessarily unemployed) workers, and in the following year there was another massive increase known as Selective Employment Tax (later referred to as National Insurance Surcharge). Unlike the employer's share of national insurance, and the redundancy contribution, this tax conferred no additional rights at all.

In 1970 many new non-contributory benefits were introduced, one of which (family income supplement) broke with the long international tradition that social security payments from public funds should not be used as an incentive to workers to accept or remain in low-paid full-time employment. Not surprisingly, the passage of this particular measure through Parliament attracted many unfavourable allusions to Speenhamland![7]

There followed a period which has been eloquently characterised by Sir Robert Micklethwaite, formerly Chief National Insurance Commissioner:

> The period of five years from 1971 to 1975 (inclusive) was one of very great legislative activity in the national insurance field. Some 15 statutes were enacted, or more according to how one defines the field. And it was during this period . . . that confusion crept in, due to an intention apparently to discard the well-understood phrase "national insurance" and to substitute for it something else. The difficulty is to see what that something else was.[8]

During this period, social security in the United Kingdom finally became accepted as synonymous with means-tested supplementary benefit, as in the expression "living on social security". This completed the move away from Beveridge's insurance-centred definition of social security.

When the philosophy of the family income supplement was extended in the early 1980s to cover what was called housing benefit, not payable in respect of a contingency but for a basic universal human need, the equilibrium of the system rapidly became unstable. Within three years the new benefit was being claimed by every third household in the country. At the same time the number of pensioners and unemployed people claiming supplementary benefit had mounted to 30 per cent of the total. Actuarial forecasts showed that the number of national insurance contributors per pensioner would drop to 1.6 within 50 years, and there was said to be no accumulated fund to meet this future liability.

The review leading to the Green Paper became inevitable once the system's contribution-limited resources became swallowed up in the deep recesses of the Treasury purse. The trouble was that too many claimants, egged on by too many pressure groups, thought that it was bottomless.

## The Green Paper

Anyone who has ever tackled the task of advising a country on the future development of its social security system cannot fail to be impressed by the work done by Mr. Fowler and his review teams. They knew that they were on a hiding to nothing since a review of that nature was bound to produce losers as well as winners, and were aware that the media build-up had created a false expectation that their report would rival Beveridge's in originality and popularity: their efforts in an extremely difficult situation merit the highest praise.

Published in four volumes, the Green Paper is a highly professional piece of work. It is well produced, readable and, bearing in mind the extended scope of British social security compared with the international model, remarkably concise. It must, however, be explained to the reader unfamiliar with British terminology that medical care is not included as part of the social security system. Mr. Fowler is in charge of a joint Department of Health and Social Security (DHSS), but the Green Paper covers only cash benefits.

*Volume 1* (Cmnd. 9517) is the key document. It describes the nature and magnitude of the social security problems facing the country, summarises the historical development of the system, establishes guiding principles and objectives for the future, and sets the scene for the detailed government proposals. Some of the statistics it contains are staggering. The cost of social security will pass the £40,000 million mark this year, accounting for almost one-third of all public spending, and notching up a 60-fold increase since the start of national insurance. The system employs well over 100,000 staff, one of the biggest and most labour-intensive undertakings in government service. It is estimated that in 50 years' time it will have to provide pensions for well over 13 million people.

The basic principle is that "social security is not a function of the State alone. It is a partnership between the individual and the State – a system built on twin pillars". This leads to three main objectives:

1. The social security system must be capable of meeting genuine need. This is the responsibility of any government.
2. It must be consistent with the Government's overall objectives for the economy.

3. It must be simpler to understand and easier to administer.

Overgeneralised criticism of the present system is unfair, because it has demonstrably achieved far more than its original aim of ensuring that absolute deprivation should be eliminated. But although the position of the worst-off has improved in absolute terms, there have been important changes within the low-income population. In particular, the number of pensioners in this group has fallen significantly, and there has been a corresponding increase in the number of families with children headed by an unemployed person of working age.

Accordingly there is a need to re-examine the existing provision for pensioners. Clearly the basic pension must remain, since that is a state responsibility, but the Green Paper asserts that the State Earnings-Related Pension Scheme (SERPS) must go, except for certain categories of middle-aged persons with acquired rights. Otherwise it would treble the cost of paying pensions by the year 2033/34, assuming that they were uprated in line with prices, with another £21,500 million to be found if pensions were kept in line with earnings. What the Green Paper proposes in place of SERPS is a system in which everyone is able to contribute either to an occupational pension scheme or to a personal pension.

Let us look at some of the other changes proposed.

As to provision for children, the universal child benefit which in 1979 replaced family allowances and child tax allowances is to stay. But family income supplement is to be replaced by a new type of benefit called family credit. This will be paid by employers through the pay-packet, and then recouped from the contributions or tax payable to the Government. It is claimed that the new family credit, although means-tested, will reduce the worst disincentive effects of the poverty trap.

Family credit is to be co-ordinated with a new income support scheme which is to replace supplementary benefit. The present structure of scale rates (based on age and marriage, householder status, family responsibilities and time in receipt of supplementary benefit) will give way to a simpler approach in which the essential criteria will be age and family responsibilities. No attempt will be made to provide in detail for every variation in individual circumstances, but there will be extra allowances for a limited number of groups. By adjusting the rules relating to capital and permitted earnings, people receiving benefit will be given more encouragement to save and work than under the present scheme.

A novel feature of the new arrangements will be a social fund, administered by DHSS local offices on a discretionary basis. This is intended to bring social security resources and those of other local agencies together in a cost-effective way to meet social and financial needs.

Together with a reformed housing benefit system, on which the Government has accepted the recommendations of the Housing Benefit Review Team, the changes mentioned above are said to provide a coherent and integrated basis for helping those with low incomes, an important step towards simplification of the system as a whole. The Government has, however, made it clear that it remains firmly committed to the contributory principle for national insurance benefits and asserts, on the evidence of a survey of public attitudes carried out by Gallup Poll for the DHSS, that people do not regard their contributions as just another tax. At the same time it is said that when the proposed changes to pensions are made, it may not be necessary to keep detailed contribution records. And some of the long-standing contributory benefits, such as the lump-sum grants for maternity and death, are to be replaced by help at a higher level for those who need it; others, such as maternity allowance and benefits for widows, are to be restructured.

All the changes are to be accompanied by major management improvements, involving a new computer strategy and further investigation of the possibility of developing closer links between the tax and benefit systems.

*Volume 2* (Cmnd. 9518) examines the social security system area by area, and describes the programme for change in detail. In addition to a wealth of graphs and statistical tables, the arguments in favour of the Government's proposals for reform are deployed at much greater length than in Volume 1, under six chapter headings: 1. Provision for retirement; 2. Supplementary benefit; 3. Housing benefit; 4. Family support; 5. Maternity, death and widowhood; and 6. The management of social security.

*Volume 3* (Cmnd. 9519) contains six background papers. "Low incomes and social security" is a sociological study of living standards, low incomes and the impact of social security, starting with the Beveridge Report. "Social security expenditure: Past growth and projected future growth" describes how expenditure on social security has grown since 1949/50, and includes projections up to 2033/34. "An historical perspective of social security" traces the development of the social security system since the Poor Relief Act of 1601. "Public attitudes to social security" describes the results of the Gallup survey mentioned above. "The existing social security system" contains a comprehensive but concise description of the operation of the system as it is. "The review process" explains how the review was carried out, starting with the setting up of the Inquiry into Provision for Retirement in November 1983.

*Volume 4* (Cmnd. 9520) contains the report of the Housing Benefit Team setting forth 39 detailed proposals for reform, designed to achieve over time a much fairer and simpler structure for providing assistance with housing costs to low-income households. The main points are as follows: 1. The rules for the new income support scheme should be used to assess entitlement to housing benefit. 2. Households receiving income support should be eligible for the maximum level of assistance with rent and rates. 3. All households should pay a contribution to rates. 4. For households above income support levels, benefit should be reduced by a simple formula or taper, related solely to income. 5. There should be better safeguards against wasteful expenditure. 6. Local authorities should continue to administer the scheme, but control mechanisms should be improved.

## Parliamentary and public reaction

On 18 June 1985 Mr. Fowler moved a government motion in the House of Commons, welcoming the Green Paper and endorsing the Government's aims of achieving a better social security system that would direct help to the people who need it most, make it simpler to understand and run, base pensions on a partnership between the State and individuals, and put social security on a sound basis which the country can afford.

The Secretary of State emphasised the complexity of the present system and its growing cost, and stressed the courage of the Government in focusing discussion on the structure of social security needed for the next 30, 40 or 50 years. Much of his speech centred on the abolition of SERPS, but he also devoted a great deal of attention to the Government's policy of dealing comprehensively with the needs of all low-income families. The programme as a whole was envisaged as a "modern and better-managed social security system which is adjusted to the needs of today and able to meet the challenges of the future".

Mr. Neil Kinnock, Leader of the Opposition, moving an amendment to the motion, characterised the Green Paper proposals as "a raid on the welfare of millions of poor people and pensioners". He criticised the absence of firm statistics of gainers and losers, and pointed out that when SERPS was introduced in 1975 it was with all-party support.

Dr. David Owen, joint leader of the third main political grouping, the SDP/Liberal Alliance, suggested a more radical approach, entailing the complete fusion of the income tax and national insurance systems. After some six hours of debate, the government motion was carried with the anticipated large majority, a result that was repeated at the end of a debate in the House of Lords on the following day. But there, except for the discussion at the Conservative Party Conference in October, approval for the Green Paper proposals seems to have ended.

The Trades Union Congress, representing organised labour, immediately launched a vigorous campaign against the Green Paper, dubbing it "nothing more than an exercise to save the Government money at our expense". More surprisingly, the Confederation of British Industry, representing employers, also came out against the proposals, urging the Government to modify SERPS rather than abolish it, objecting to the payment of family credit through the pay-packet, and criticising the timetable under which the new private sector pension arrangements would have to be in place by April 1987 as "totally unrealistic, dangerous and probably impossible in practice".

The life assurance and pensions industries, at first excited by the prospect of enlarging their business, proved less so when they considered the implications of the Green Paper more thoroughly. The prospect of having to run two systems in tandem for at least 15 years was not an attractive one, and the low level of compulsory contributions proposed (2 per cent each by employers and workers) for the group who by definition was in the lower part of the middle range of earnings, offered no rich pickings.

The final blow fell at the end of October, when the Social Security Advisory Committee, the Government's own standing advisory body on social security, presented a report[9] recommending that the plan to abolish SERPS should be dropped. Although the Committee applauded some of the remaining parts of the Green Paper as "a genuine effort to overcome an intractable problem", it expressed enough doubts and reservations to give the Government pause.

The Queen's speech opening the new session of Parliament contained the brief sentence: "A Bill will be introduced to reform social security." So it will, and with the Government's Parliamentary majority of 144, there can be little doubt that in due course the Bill will become an Act, adding to the mass of legislation on social security that has been enacted since Beveridge reported. But whether the system can truly be said to have found its way again remains an open question.

## The international dimension

It is impossible not to feel sympathy for Mr. Fowler. At the end of a review involving four teams, extensive consultations, the distribution of 50,000 copies of various documents, the holding of 19 public sessions at which oral evidence was heard from 62 organisations and individuals, the receipt of 1,700 submissions on portable pensions alone, and the holding of 20 meetings to discuss housing benefit issues with 29 organisations, a Gallup Poll and the production of a Green Paper of very high quality, hardly anyone has a good word to say for the result. The authors of the Green Paper likened the British system of social security to a leviathan out of control; it is not difficult to see who is going to be cast in the role of Jonah! Still, the story of Jonah had a happy ending; but before he could sort out the people of Nineveh, whose trouble was that they could not distinguish their right hand from their left, he first had to re-establish contact with the outside world.

For all its merits, the Green Paper suffers by comparison with its distinguished predecessor, the Beveridge Report, in one important respect: an awareness of the international dimension of social security. To Beveridge this was as natural as drawing breath. In 1907, while still a cub reporter for the *Morning Post*, he visited Germany to inspect the social security arrangements set up by Bismarck over 20 years before, and returned, convinced of their merits, to write a series of articles that helped earn him the reputation as an expert in social insurance, leading to his civil service appointment as special adviser to Winston Churchill, then President of the Board of Trade. Together they were responsible for introducing the world's first national system of unemployment insurance. Later, as Director of the London School of Economics, Beveridge served on the ILO's Committee of Experts on Social Insurance. It was only natural that his Interdepartmental Committee on Social Insurance and Allied Services, set up in 1941, should recognise that "the main problems of social security are common to all nations". Nor was it any surprise that that Committee sought and obtained help from the ILO, help freely given and generously acknowledged in the Beveridge Report.[10]

The report confirmed that at that time "the principle adopted by most other countries [was one] of making state insurance benefits proportionate to the earnings which have been lost". And the situation outside the United Kingdom has not changed. Earnings-related social insurance is the technique most widely used among the 140 countries and territories which today operate social security systems, whatever the underlying ideology, from the USSR to the United States. The Secretary of State will certainly wish to ponder this fact before deciding the fate of SERPS.

## Insurance and taxation

The cost of social security benefits "shall be borne collectively by way of insurance contributions or taxation or both". Thus Article 71 (1) of international labour Convention No. 102, the only one on social security that the United Kingdom has ratified since the Second World War, reminds those concerned that there is no such thing as a free benefit. All benefits have to be paid for, one way or the other. It might perhaps be thought that the generality of the formula gives such freedom of choice that it does not matter which benefits are paid for by contributions and which by taxes. That would be a misapprehension. Where benefits are payable wholly or mainly out of public funds, States have more freedom of action than under contributory social security schemes, which is a particularly important consideration where they have entered into bilateral or multilateral agreements providing for reciprocity.

This is not merely an academic question. When the ILO was created by the Treaty of Versailles after the First World War, the authors of its Constitution included a provision that all member States should guarantee fair economic treatment to all workers legally resident in the country. This was a simple recognition of the mobility of labour, and of the particular problem of migrant workers regarding the provision of long-term benefits such as old-age pensions. If the social insurance approach was used, as it usually was, entitlement was on a contractual or personal basis, involving a long qualifying period of work and in most cases deductions from pay. In such cases it was only fair that some arrangement should be made to allow the worker to receive the pension that he had earned, even if he wished to return in his old age to his own country. If on the other hand the pension was not "earned" but was financed out of the general revenues of the host country, there was not the same strength of obligation to extend the territorial eligiblity for payment of the pension. The distinction between the two types of case has been clarified by more recent international labour Conventions.[11]

When people fall foul of one of the contingencies of life against which social security programmes are designed to give protection, it often takes two hands to rescue them. The right hand of insurance, with its "magic of averages", works well in combination with the left hand of direct state aid but, although similar in appearance, they are in fact opposites. The efficacy of insurance, whether state or private, depends on the *maximisation* of the ratio of contributors to beneficiaries. State aid has to be financed out of taxation, an impost which from time immemorial it has always been a citizen's right to minimise or avoid by any legal means within his power. In respect of taxation the aim of most governments is to *reduce* the number of taxpayers.

When Beveridge reported, there were about 19 million contributors to national insurance and 4 million taxpayers in the United Kingdom. There was some overlapping, but by and large they were disparate groups. His elegant strategy was designed to employ both hands to the best effect. By rooting out pockets of privileged exception and making national insurance compulsory for all, the plan was to maximise the contributor/beneficiary ratio by increasing the size of the contributing population, on the Government Actuary's estimate, to 22.5 million. On the other hand, it did not seem unreasonable to equate the taxpayers with "the rich" and make them pay for those parts of the plan which necessitated state finance.

Unfortunately it did not work out that way; in Britain today there are about 23 million national insurance contributors and 23 million taxpayers. The two groups are not of course identical, but they are sufficiently similar in composition to have caused the revival of a strong and influential movement for the complete integration of the national insurance and income tax systems. This movement first started in 1912 when the first National Insurance Act came into operation, and the Webbs published a book[12] denouncing national insurance as "a universal poll tax".

The case for integration was carefully examined and rejected by the Beveridge Committee in 1941, but it was given fresh impetus by a book published in 1943,[13] and was very much in vogue in the early 1950s, when the combined effects of the accelerated maturity of the scheme, the manipulation of the National Insurance Fund and inflation, gave considerable credence to the argument that "the citizen *qua* contributor" has no moral right to regard these assets "as trustee securities, for the surplus on the funds is only made possible by the fact that a large part of the finance of the scheme is provided out of general taxation and not by contributions".[14] The impression that the authors of the Green Paper are still thinking along these lines is heightened by their use of a phrase of four words: "there is no fund". This was picked up and used by Mr. Fowler in the House of Commons debate: "One of the fundamental mistakes in the debate on the pensions scheme is that there is a belief that the national insurance pension and SERPS will be paid from a fund. It will not be paid from a fund, because there is not one."[15] This brought back memories of the famous occasion, over 30 years earlier, during a debate on the National Insurance Bill, 1954, when Mr. Aneurin Bevan, ex-Cabinet Minister and father of the National Health Service, said: "There is no such animal as 'the Fund'. It does not exist. It is pure myth."[16]

There may be, as in ancient Nineveh, some local difficulty about right hands and left hands, but there is nothing mythical about "the Fund". In fact, the Green Paper contains many references to the National Insurance Fund. Throughout all the vicissitudes of the past 40 years it has been quietly doing its job, never getting in the red, and when the accounts were last presented to Parliament[17] there was a credit balance of over £4,603 million. As the Accounting Officer wrote at the time, "it is neither practical nor would it be economical to keep precise accounting records of payments made in respect of each particular benefit", so nobody can say how much of the money accumulated represents deferred pay held in trust for the contributors to SERPS (who presumably include a proportion of migrant workers) since its introduction in 1978. But there is absolutely no reason why the Government, if it so minded, should not improve the standards of accounting, bring them and the investment policies of the National Debt Commissioners more in line with the best commercial practice in the private insurance field, and thus remove any feelings of guilt that the pensioners of 2033/34 may have about being supported by their children and grandchildren.

There is one question that Mr. Fowler might usefully ask himself before he proceeds to the next stage of the legislative process. Is it really a leviathan he is up against or does it just look like one from the position in which his predecessors in office have landed him? It could just be the same old bloated Treasury purse as seen from the inside, with the Secretary of State and all the national insurance contributors being taken for a ride.

## Conclusion

To the sympathetic observer of the social security scene in the United Kingdom, aware that there is something radically wrong with the system and hoping to see it remedied, the Green Paper and its outcome so far have been something of a disappointment. Perhaps it is because the dramatic opening, with its overtones of loss of policy and financial control, heightens expectations that are never fulfilled. What caused this loss of control, and precisely what steps are proposed to ensure that such a catastrophe does not occur again? And what about the levels of benefit? Will they in fact achieve the standards laid down by international labour Conventions, particularly Convention No. 102 – which the United Kingdom has ratified – and other bilateral and multilateral obligations already entered into? These are questions to which the reader searches in vain for an answer. What confidence, then, can there be in the assertion that "the proposals in this Green Paper will bring the social security system firmly back under control"? What guarantee is there that they are any different from those of the past 40 years? – well-meaning but having the effect of confusing and complicating the system still further.

The answer to the question about loss of control ought in fact to prompt the Government to come up with a much more radical and exciting set of proposals than those included in the Green Paper. When the ILO published Lucien Féraud's classic study of compulsory pension insurance in 1940, it was seen that for the years from 1927 onwards, the actual state grants paid in respect of pensions in the United Kingdom were constant and "in agreement with the estimates", an achievement obviously worthy of note, even at a time when the value of money was constant.[18] The United Kingdom has never been able to make a similar claim since 1940, because of a legislative change made that year. Wartime inflation had eroded the value of pensions, the rates of which had remained unchanged since they were introduced in 1926. Instead of giving pensioners a general increase, and putting up the contributions to pay for them, the Government of the day decided to take over the responsibility for means-tested supplementation from the local authorities, arguing that "help should be concentrated where it is most needed, on the poorest of the poor".

The trouble was that the near-poor, seeing that the State was giving away money for the asking, decided to claim supplementation as well. Claims exceeded expectations by a factor of eight, and budgetary control in any meaningful sense has never been possible since. This strongly suggests that the Green Paper proposal to give greater discretion to DHSS local offices in the administration of the non-contributory benefits of the system should be taken to its logical conclusion, and the entire responsibility returned to the local authorities, who are clearly better placed to exercise firmer control. There would of course have to be substantial additions to the present block grants from central government, but these would be susceptible to cash limitation.

As to the contributory benefits, the logic of the Green Paper findings is that the basic pension should henceforth be financed from taxation, rather than from contributions, entitlement depending on some "broad brush" form of the contributory principle, such as a test of the number of years during working life for which the pensioner had submitted income tax returns, whether or not tax was actually payable for those years. The administration of SERPS and all the other contributory benefits should be turned over to a new non-profit-making organisation, called, say, the National Insurance Corporation, which could compete freely with the private pensions industry in the same way as the National Savings movement competes with other organisations in the savings field. Contracting-out would be abolished and replaced by individual freedom to choose. A stop would be put to Treasury subsidies, in the form either of grants to the National Insurance Fund or of tax concessions. Then the system might truly have an opportunity to find its way again. It would be a pity if the opportunity too were lost.

## Notes

[1] *Reform of social security* (London, HMSO, Cmnd. 9517-9520, 1985).

[2] *Social insurance and allied services*, Report by Sir William Beveridge (London, HMSO, Cmnd. 6404, 1942).

[3] *General problems of social insurance*, Studies and Reports, Series M (Social Insurance), No. 1 (Geneva, ILO, 1925), p. 84.

[4] Alec L. Parrott: "On a clear day you can see the principles", in *Contemporary Review* (London), Mar. 1985, No. 1430.

[5] *Report of the Committee on the Economic and Financial Problems of the Provision for Old Age* (London, HMSO, Cmnd. 9333, 1954), p. 56.

[6] Ministry of Pensions and National Insurance: *Provision for old age* (London, HMSO, Cmnd. 538, 1958), p. 6.

[7] A system introduced in certain parishes in England towards the end of the eighteenth century under which the local parish supplemented wages below an absolute minimum set by local justices having regard to the price of bread and the size of the labourer's family. Its general effect was to depress wages further and greatly increase the burden on rate-payers. In 1834 an amendment was made to the Poor Law Act to end such outdoor relief to able-bodied poor people; henceforth relief would be provided only to the very old and the sick, and able-bodied persons would have to enter the workhouse.

[8] Sir Robert Micklethwaite: *The National Insurance Commissioners* (London, Stevens and Sons, 1976), p. 21.

[9] *Fourth Report of the Social Security Advisory Committee* (London, HMSO, 1985).

[10] *Social insurance and allied services*, op. cit., pp. 18 and 287-293.

[11] For example, the Equality of Treatment (Social Security) Convention, 1962 (No. 118), the Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128), and the Maintenance of Social Security Rights Convention, 1982 (No. 157).

[12] Sidney and Beatrice Webb: *The prevention of destitution* (London, Longmans, Green and Co., 1911), pp. 169 and 186.

[13] Lady Rhys-Williams: *Something to look forward to* (London, Macdonald and Co., 1943).

[14] Alan T. Peacock: *The economics of national insurance* (Edinburgh, Hodge, 1952), p. 83.

[15] *Parliamentary Debates (Hansard)*, 18 June 1985, col. 192.

[16] ibid., 8 Dec. 1954, col. 1150.

[17] *National Insurance Fund: Account 1983-84* (London, HMSO, 1984).

[18] Lucien Féraud: *Actuarial technique and financial organisation of social insurance: Compulsory pension insurance*, Studies and Reports, Series M (Social Insurance), No. 17 (Geneva, ILO, 1940), p. 507.