Making a Contribution: social security for the future

blog admin

As disability benefit cuts loom, we must not lose sight of the vital links between contributions and entitlement. **Kate Bell** *argues the only way to reduce spending on social security is to improve longer-term work incentives.*

The welfare reform act brought in changes to the benefit system which reduce its contributory nature: what you get out depends less and less on what you've put in. But it's a revival of this 'something for something' system that could help us address the real challenge our welfare state faces – the need to increase employment.

This Monday will see around 70,000 people with a sickness or disability lose their benefits, as part of changes introduced under the Welfare Reform Act. Anyone who has a partner who works above 24 hours a week, will lose their entitlement to Contributory Employment and Support Allowance after a year.

The change looks like one more nail in the coffin of the contributory benefits that formed a key plank of the social security system based on William Beveridge's 1942 plan. Benefits paid on the basis of contributions have been declining as a share of spending on social security since the 1980s. But Beveridge's contention that 'benefits in return for contributions is what the people of Britain desire' still rings true. As the partner of one of Monday's losers put it in the Observer: *"It's not right that Malcolm paid into the system and now when he needs help it is not going to pay out."*

The Government has argued that paying benefits to those who have partners who can support them is unaffordable. A means tested benefit will remain in place for those with no other means of support. But while the change may save money in the short term, breaking the link between contribution and entitlement seems shortsighted.

The best way to reduce spending on social security in the long term is to increase employment. Relying on a means tested system reduces the incentive to work both for the potential claimant – the 'insurance' premium he gained from working has been removed – and, once he starts claiming, for his partner: her earnings are now directly offset by losses in benefit. As Mike Brewer and I have pointed out previously here, incentives for women to work are already weakening under the new system.

The need to improve longer term work incentives isn't just in response to the current recession. As our population ages, the dependency ratio – the number of non-working people each working person needs to support – is growing. Based on current patterns of employment, it will fall from the current ratio of 1.4 working to non-working people to a ratio of 1.1 by 2031, and by 2051 there will only be one worker to each one person who needs our support. Our ageging population is the major challenge to the affordability of the welfare state. As Declan Gaffney and I show, in a report on the contributory system to be published by the TUC on Friday, an increase in employment has the potential to halve the growth in the dependency ratio.

How could the revival of a contributory system address this? It can't do it alone. The major barriers to both disabled people and women participating in employment remain in the workplace: the disability employment penalty that means that disabled people face significantly reduced chances of finding a job compared to those with identical characteristics but no disability, or the stubborn gender pay gap. But a revived contributory system could help break those barriers down. Not only would it increase the benefits to working (think of how employers market other forms of insurance as part of salary packages), but it could also help maintain links with the labour market during times in which people are out of work.

One of the greatest risks faced in the modern world is a shortage of time to care; whether that's for young parents, or for elderly relatives. A contributory payment during parental leave could extend the time parents are able to spend with their children without having to exit the labour market altogether. And a better contributory benefit paid during a period of sickness or disability would enable other family members to remain in the workplace. Although we can't draw a direct line of causality, both continental and Nordic countries which embrace more contributory systems see significantly higher employment rates than our own.

Those who will be directly affected by Monday's cuts are likely to experience hardship. But in the long term, it may be all of us who lose out if we don't look again at ensuring our system addresses affordability in the long term.

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Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics.

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