SOCIALIST RENEWAL

New Directions for Pensions

How to Revitalise National Insurance

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EUROPEAN
LABOUR
FORUM

Pamphlet
No 2

£1.50p

Foreword

The debate on pensions in the UK but also in Europe, Eastern Europe and the Third World is changing fast. In the UK it is at boiling point. The Commission on Social Justice put forward its (confused) advice about policy in 1994 and new statements on pensions policy have just been issued by the Labour Party.

The second part of this pamphlet was issued earlier in 1995 by the Fabian Society as a discussion paper but at the time attracted little public attention. Because of the new statements issued on behalf of the Labour Party the argument and evidence for an alternative Labour approach — which also has immediate implications for the debates about pensions and Welfare State strategy in many other countries, and by the international agencies like the World Bank and the OECD — has been updated, with a new introduction.

As this pamphlet goes to press yet further evidence of instability among occupational and private pensions has been reported. The Pensions Ombudsman has ruled that the 12 Trustees of the British Airways pensions scheme, with 25,000 pensioners and a fund worth £5 billions, were in breach of trust and guilty of maladministration when they decided in 1989 to fund a 30 year employer's contribution holiday and withhold £9 millions pension contributions (*Independent*, 14 September 1995). The case for collective or national insurance schemes to foster social stability, economic prosperity and personal and social security for each generation, and to reduce growing equality and impoverishment, has never been stronger.

Peter Townsend and Alan Walker
21 September 1995

Acknowledgements

The pamphlet is published with the full support of the National Pensioners' Convention, a grassroots movement with some 1.5 million affiliated members. We are extremely grateful to the Officers of the NPC, especially Jack Jones the NPC President, for their comments on a draft version of the pamphlet. Tony Atkinson, Jay Ginn and Sue Ward also provided very helpful suggestions which added substantially to the pamphlet.

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Prepared in conjunction with the National Pensioners' Convention.

New directions for pensions: how to revitalise National Insurance

Peter Townsend and Alan Walker

I

This pamphlet discusses one of the most important social policies that the Labour Party has made in the last 40 years. The outcome of the current policy process on pensions will determine the whole character of the next Labour Government's social policy as well as the future of the welfare state in the United Kingdom. Retirement pensions are drawn by more than 10 million people, a little short of a fifth of the population. The basic retirement pension costs £28.8 billions a year (CM 2813, 1994-5). This is small relative to the cost in most European countries and has, allowing for inflation, remained stationary per pensioner since 1979, while the economy has grown, and earnings have steadily exceeded the pension in real value. But a policy on pensions will also affect policies on sick and disabled people, the unemployed, the low paid, and lone parents because retirement pensions are an integral part of a National Insurance scheme which affects everyone, whether as beneficiaries or dependents.

In generational terms the arrangements for pensions go to the heart of family relationships and the arrangements everyone makes for family care and dependency. They govern too the prospects of all younger people in employment, and therefore condition the way they look at incentives as well as their future security. By any standards, therefore, pensions represent a key feature of Government. Their importance has been grossly underestimated by both the present Government and the Opposition.

The Labour Party seems to be on the brink of adopting the wrong policy. In early September a policy statement prepared and discussed by the National Executive Committee of the Party was leaked to *The Times* and *The Independent* (6 September). Why is this significant? First, the NEC call attention to the idea of a Minimum Pension Guarantee "above the Income Support level" for all pensioners without, it is supposed, the problems of take-up and disincentives of Income Support.

Second, the National Executive Committee propose "a funded second tier state pension scheme to replace SERPS (the State Earnings Related Pension Scheme)". This means withdrawing "Pay As You Go" and replacing it with long-term funding. Despite recent reports which purport to discuss funding alternatives (for example, Falkingham and Johnson, 1993) they do not bring out the major disadvantages in comparison with SERPS both for working people and the economy.

These two ideas are presented by the NEC paper in highly favourable terms. No proposals are put forward to restore the value of the basic state retirement pension to its 1979 level in relation to earnings, nor even to tie its present value to average earnings after 1996. Such courses of action, the National Executive Committee states, "would be extremely costly". But that depends on the yardstick of measurement, and even on Government predictions of low growth in the economy that do not seem to be true.

This pamphlet sets out why the Labour Party would be taking the wrong step if the tentative proposals discussed by the NEC are agreed. They would confirm, and deepen, insecurity among millions of working people and worsen poverty in retirement. For the low-paid and disabled, and those moving into and out of the labour market, the implications are potentially catastrophic.

The worst mistake would be to believe that a Minimum Pensions Guarantee (MPG) would work in the way that Labour's policy advisers now suggest. On September 6 Donald Dewar, the Shadow Secretary of State for Social Security, in the Clark

Whitehill Annual Pensions Lecture, put the prospects for state pensions in the gloomiest possible perspective. According to *The Times* the proposed Minimum Pensions Guarantee would allow the Party to drop its pledge to re-establish the link between state pensions and earnings while honouring promises to raise the income of the poorest pensioners. Donald Dewar said "The simple principle is that if the income of a retired person is below a certain agreed minimum then it will be automatically made up to that level" (*Times*, 6 September, 1995, and see his Clark Whitehill Annual Pensions Lecture, p.4).

The Commission on Social Justice put forward the idea in a confused form, as we point out below, in its report in 1994. But the apparently favourable reaction of the Labour Party and Donald Dewar is new. What therefore needs to be highlighted is that a Minimum Pension Guarantee was in fact proposed long ago by a Labour Government and in the event was found to be wanting.

In his history of the Welfare State Nicholas Timmins (1995) explains the disastrous fate of this earlier version (pp. 226-227). "To overcome the reluctance to claim, in the run-up to the 1964 election Labour not only promised an 'income guarantee' for pensioners — a minimum benefit to be paid free of means-test — but had made it the centrepiece of its social security programme . . . [It] was the first of what have so far proved largely doomed attempts to bring together tax and social security."

He went on to point out that the pensioners' needs for housing and other help proved more complex than could be met by a "single, affordable, unmeans-tested sum". Moreover, tax returns were filled in annually but pensioners becoming disabled, or finding that other benefits or additional earnings were coming to an end would need money that week, not next year. In the words of the Labour Minister responsible at the time, Douglas Houghton, the scheme "went on the rocks". What was "salvaged from the wreck" was the Supplementary Benefits scheme. The means-tested system of National Assistance was replaced by the means-tested system of Supplementary Benefits, and those, like Tony Atkinson, who reviewed the evidence at the time concluded that the number of pensioners failing to get the new "guarantee" remained almost as many, at around or over a million, as previously under National Assistance.

Is history set to repeat itself? We hope not. Labour's Commission on Social Justice argued vehemently at the end of 1994 against means-testing and in favour of "universalism" — or benefits as of right. But the MPG is a means-tested benefit, not one guaranteed of right, and Labour leaders must now be informed of that fact.

For a Labour Government to pursue even a modified means-tested policy would be extraordinarily wasteful. Let us give one up-to-date indicator. The cost of administering the retirement pension is only 1.2 per cent or £325 millions a year in relation to total benefits of nearly £29b. That is a mere 60p a week per beneficiary. Income support costs 10.2 per cent or a staggering £1,638 millions a year to administer. That is £5.45 a week per beneficiary (CM 2813, 1995, p.58). Means-tested schemes are costly to run, indeed hugely wasteful of resources, as well as being unreliable, divisive and unpopular.

This replacement of pensions by right is also an unnecessary exercise. The Conservative Government has made plain its agenda of lowering public expenditure and privatising pensions. To manipulate public opinion they have sought to exaggerate the future costs and numbers of pensioners but their estimates of social security costs have had to be revised downwards. Britain is better placed than many industrial countries to accommodate the higher number of pensioners in 50 years time. Demographic forecasts are susceptible to big changes because of changing trends in mortality, fertility, migration and the labour market. The right approach to planning is to concentrate primarily on the next decade rather than a shadowy distant future.

In *The Growth of Social Security* (1993) the DSS gave estimates of cost for the year 2000-2001 which it reduced only two years later in CM 2813 (1995) by no less than £8 billions, only half of that figure because of cuts imposed by new Government policy. A study of OECD countries found that in 1980 the UK had one of the lowest ratios of people of economically active age to pensioners, but by 2040 it would have the second highest ratio (after Ireland). "Relative to its trading partners, therefore, the UK would be favoured by demographic ageing, since the demographic contribution to increased expenditure will be less in the UK than in almost all other countries." Even with the maturing of SERPS, public expenditure was "unlikely to increase dramatically compared with other countries". And public spending per pensioner "was lower in the UK than in all other OECD countries" (Hutton S., Kennedy S. and Whiteford P., 1995, see also the House of Commons research paper 95/47 by Cracknell R. and Strickland P., 1995). Scaremongering by the DSS under the Tories is one thing, scaremongering by the Labour Party is another.

We argue that the additional costs of a modernised and revitalised scheme for social insurance could be met partly by extending the national insurance contribution to the top of the earnings scale; partly by selective cuts in tax expenditures (for 1992-93 the cost of mortgage interest tax relief was £5.2b., the married couples' allowance £4.6b. and the personal pension subsidy £1.6b.), and selective increases in corporation and inheritance taxes. At the present time the Government estimates tax expenditures at £114.1b. (1992-3) and there are good grounds for reducing it sharply, say, by 10 or 15 per cent (i.e., £11-16b). This would be a principal strategy in clawing back at least a third of the **additional** £35b. per annum now going to the richest fifth of the population (this sum representing the aggregate extra disposable income now received, compared with the "share" of such income they had in 1979).

Steps to raise the basic pension, tie the pension to earnings and reorganise SERPS as a second tier contribution to pension income are **affordable** — whether in terms of the pensions paid and the contributions raised from employers by most of our EU partners; whether in terms of rational analysis of the overall current and prospective costs of all forms of pensions (as revealed in reports by the Government Actuary); whether in terms of the size of national insurance contributions which the employed population are willing to pay, and whether in terms of the huge amounts of revenue awaiting collection from a fairer tax system — through principled crack-down on tax avoidance and evasion, through removing wasteful and unnecessary tax allowances, and taxation of new tranches of excessive wealth.

In a White Paper presented to Parliament by Michael Heseltine, the President of the Board of Trade, 22 May 1995 (CM 2867) the "funding of old age" was described as follows:

> "In the West, governments play a key role in the provision of pensions. Ageing populations create pressures for higher expenditure on pensions, leading to higher taxes falling on fewer workers. And yet, in a world of global markets and capital flows, governments cannot increase taxes significantly without damaging national competitiveness. In these circumstances, individuals will not be able to look to the state to fund improvements in their living standards in old age." (para 6.22)

This gives the game away. The agenda for privatisation and more poverty in old age could not have been stated more clearly. It anticipates, and confirms, the strategy being advanced around the world — especially in the poor and poorer countries — by agencies like the World Bank and IMF (see, for example, World Bank, 1994).

Labour must recognise that there is an alternative strategy which builds on the principles of collective provision. The revitalisation of social insurance will provide economic security for everyone, reinforce solidarity between the generations, encourage community spirit and be cheaper to administer than the proposed minimum pension.

* * *

II
The Future of Pensions

Labour's policy on pensions will set the scene for its entire social and economic policy for five years. Its pensions policy will be seen widely as a key indicator of Labour's will to change the unstable, divided and more widely impoverished society inherited from 16 years of Conservative free market policies.

The nation has in its possession an institution which, on the evidence, works well for the economy as well as society. It is an institution that has been widely replicated in Europe and elsewhere in the world. It would be wrong to continue Tory policies to dismantle it. Those policies have created insecurity, divisions between the generations and economic inefficiency as well as greater poverty.

The institution is national insurance. It makes economic and not just social sense because it gives everyone a stake in earning a wage, bridges interruptions of earnings, provides a basis for getting back into earnings, encourages savings, is cheap to administer, and is a reliable and flexible source of revenue as well as being popular. As Beveridge (1942, p.93) noted, the contributory principle is "good in itself and in accord with popular sentiment".

There are three existing alternative sources of pension provision for minorities of the population — private insurance (including personal pensions), occupational pensions, and means-tested income support — all three of which are developing severe problems at the present time. Each of them is becoming more expensive, insecure, unpredictable, and divisive. Private pensions are particularly divisive because they erode the political and economic basis of public pensions (Ginn, 1995).

There are other *possible* alternatives which have been floated by different bodies, like 'compulsory private pensions' (proposed by the Commission on Wealth Creation and Social Cohesion); a pensions guarantee (proposed by the Borrie Commission but invoking a new form of means-test); and a citizen's pension (which has much, in principle, to commend it and operates effectively in Denmark, but which would entail too great a cultural shift for the British Treasury and financial establishment to contemplate).

All three of these suffer from elements of impractability and lack clarity on key points: they need to be set out in much more detail on a cost and loss basis — showing common examples of people drawing different combinations of pensions, and showing too what changes in entitlement and contributions would apply to different categories (low paid; part-time workers; self-employed; young workers and workers in their fifties; intermittently and long-term unemployed, for example); and they do not explain how a government is supposed to deal with the transitional problems of changing or replacing existing schemes — like income support, SERPS and private pensions — including administration. There is also opinion poll evidence suggesting they are unlikely to capture minds and hearts.

Twentieth century national insurance is still the best model available for the economic work-horse we need in the next century. This does not mean that we accept it uncritically: socio-demographic and labour market changes have weakened the effectiveness of Beveridge's contributory principle. Therefore, to restore the capacity of national insurance to deliver individual economic security some major changes need to be made in its structure. Thus we are proposing a future for pensions which differs from the strategy adopted by the Borrie Commission — which has been dressed-up as New Labour but would actually entail a return to the old means-test — and from first reports of the policy to be recommended by the Labour Party's National Executive Committee.

There are more than 10 million retirement pensioners — nearly a fifth of the entire population. The costs of meeting their health and welfare needs, together with their pensions, account for a very large share of Gross National Product — around 10 per cent. But their future is also the future of every man, woman and child in this country. All in the population, rich and poor, and especially women, have a stake in a system of national savings and security which actually works. The continuation of discriminatory pinchpenny politics will be self-defeating — for the nation as a whole as well as every individual within it.

The Basic State Pension

Unfortunately some of the key features of the social security scheme set in place by the Labour Government in 1946-1948 and which have proven themselves over the last half century still need to be defended in the 1990s. The Commission on Social Justice (CSJ) gives emphatic support to the principle of universal benefits, but recommends contrary practice. They refer to the need for a tax and benefit system that provides incentives, not disincentives, for employment, and one of the conditions is said to be "a reduction in reliance on means-tested benefits" (CSJ, 1994, p.156). Again, they write, "Our aim is to reduce dependence on means-tested benefits to the absolute minimum . . ." (p.250) and elsewhere conclude that "a new social insurance scheme should be the foundation of long-term reform; although we may never eradicate means-tested benefits completely, the reforms we propose will help restore them to the purpose Beveridge always intended — a last resort in time of trouble" (p.227).

Unfortunately they make no specific proposals to reverse the deeply entrenched trend towards increasing use of means-tests created by the current government. Thus in a written answer in Parliament, on behalf of the Department of Social Security, William Hague gave figures for non-contributory means-tested benefits and for other benefits for 1978-79 and 1993-94. As a percentage of total expenditure the former has more than doubled, from 17.0 to 34.8 per cent (House of Commons, 13 March 1995, col. 461).

The Commission does not relate its recommendations to its stated objectives. Perhaps the most important departure from these stated objectives involves the proposed pension guarantee. The Commission point out that the basic state pension is withering on the vine. The Tory Government abandoned the earnings index for pensions in 1979 and since then the pension has declined substantially as a percentage of average industrial earnings. What is the latest evidence? On 31 October 1994, in answer to a written question to the Secretary of State for Social Security (put by Paul Flynn) we learn that the basic retirement pension of £23.30 per week in November 1979 would have increased in line with prices to £55.70 (compared with the actual rate of £57.60, following adjustments after the increases in VAT) but would have been £74.75 if increased in line with average earnings. Single pensioners would now be getting around £20 more and couples around £31 more than they do at present (Hansard, 31 Oct. 1994, c.905). The value of the single pension has fallen from 20 per cent of average male earnings in the late 1970s to 14 per cent today and according to the Commission is set to decline to 9 per cent by the year 2020 and 6 per cent by 2020 (assuming earnings grow by an average of 2 per cent a year) (CSJ, 1994, p.267). When the state pension was de-coupled from earnings in 1980 the government promised that pensioners would share in rising national prosperity.

That is a potentially disastrous erosion of pensioner rights and living standards. If, from 1946, the basic pension had in fact been tied only to the Retail Price Index, as it is today, the single pension in 1995 would not be £57.60 a week but only a little more than a third of that amount — just £23. The Commission themselves point out this fact, but do not reject the prospect of a similar erosion in the coming decades.

There is no discussion of either the principles or the reorganisation of the state pension in the Report. Beveridge put forward the subsistence principle as the basis for the minimum state pension. Whether that was implemented in full or part is still passionately argued. However, the Commission offer no alternative principle. They do not recommend, and give reasons for, either the present pension level or an alternative. They do not unequivocally propose the restoration of the earnings index (linking pension with earnings is stated to be 'the best way' of ensuring that pensioners share in the rising living standards of the community, but the state would have discretion each year to decide how much the rise in pensions should be above the rise in prices — p.269-270). Neither do they comment on the extent to which the loss in relative value of the basic pension since 1979, according to some criteria of justice, should be restored.

In case there is any doubt let us emphasise the case for the restoration of the universal National Insurance pension. In the first place there is the failure of means-testing, particularly among pensioners (one-third of eligible pensioners fail to claim the income support they are entitled to). Thus, even though the basic pension has been criticised for being 'poorly targetted' its universal character ensures that it does actually get to the poorest pensioners. In contrast means-tests fail to hit their target in too many cases — often because of the way means-tests are administered. Secondly occupational, private or personal pensions are of little or no use to those without full labour market careers, especially women. Thirdly only a universal public pension can provide economic security in the face of an increasingly flexible and insecure labour market, indeed we would argue that the security provided by the basic pension will actually assist labour market flexibility. Fourthly it is the only way in which income inequalities between older men and women can be minimised. Fifthly, it is the cheapest form of pension to administer because it avoids the costly duplication associated with the private sector. Finally, because all groups are included on an equitable basis, a renewed National Insurance pension will enhance social cohesion and solidarity between the generations.

The case for re-establishing the basic state pension is also a long-term fiscal case. The Government has attempted to paint a picture of a demographic time-bomb under the cost of pensions. Unhappily, Peter Lilley's scare-mongering has attracted adherents in the New Labour Party. But the truth is rather different: after current legislation is implemented overall costs are expected to fall sharply in relation to GDP. Even with existing legislation the cost, relative to GDP, will rise only slightly in the next two decades before falling below current levels in the longer-term future.

Even with a full return to earnings-indexed basic pensions and restoration of SERPS in full the actual growth in cost is slow and affordable. Indeed, current projections are easier to accommodate on some assumptions about the present economy than the projections which were accepted on an all-party basis in 1975.

In January 1995 the Government Actuary published his latest five-year review of the National Insurance Fund. On the basis of current legislation the required combined employer and employee main rate of contribution as a percentage of earnings "rises slightly from the present 18.25 per cent to about 20 per cent during the next 35 years" (Government Actuary, 1995, p.2). But the proposals in the 1995 Pensions Bill will mean that "contribution rates should remain roughly constant until around 2030, before falling in the longer term."

Interestingly the Government Actuary goes on to point out that if benefit upratings were assumed to be in line with earnings the combined contribution rate would rise from 18.25 per cent to 25 per cent. In planning for such a development it would of course be possible to deliver the bulk of increased revenue by raising the national ceiling for contributions, raising the rate for highest salary earners, and increasing the rate for employers of large numbers of employees (and it is also important to note that there would be government savings from such a course of action — limiting current subsidies to the private sector — and the administration of pensions would be made much more efficient. These savings can be estimated conservatively at 3 per cent to 5 per cent — in relation to the increase from 18.25 per cent to 25 per cent.)

Independent research evidence supports the implication of the Government Actuary's figures: the future cost of pensions has been grossly exaggerated. Over the next 50 years the net effect of increasing the basic pension in line with earnings would be only 0.4 per cent of GDP and, for the restoration of SERPS, only 0.8 per cent of GDP. Both of these costs combined over the next 50 years come to less than one-quarter of the cost of recession during the last 3 years (Hills, 1995). Of course it is easy to see why the Tory government would exaggerate the future cost of pensions. It legitimates a very crude political and economic agenda concerned with residualising the welfare state (Walker, 1990). It is much harder to understand why some of those on the Left have accepted such predictions in an uncritical way.

The Minimum Pension Guarantee (MPG)

This creates a vacuum in the reasoning of the Borrie Commission which might be filled only if the arguments for an alternative course of action were overwhelmingly persuasive. In fact they fall far short of that objective. The Commission propose a pension guarantee. But the *level* of the guarantee, what should be its component or acceptable parts, what are the principles which distinguish it from income support and therefore what rights, entitlements and expectations are embedded in the idea of a 'guarantee', are not discussed.

Second, the Commission's account of how it would work in practice is unconvincing and incomplete. This is different from the proposal put forward by Tony Atkinson, which would depend only on information about total pension income (Atkinson, 1994). The Commission is ambivalent about this and suggests there might be two approaches to a guarantee — one restricted to information about pensions and earnings (which already goes beyond the Atkinson proposal) and the other which also takes account of income from savings and investments as well. The Commission adds: "In practice, however, the difference between these two approaches is unlikely to be as great as it seems" (p.272).

The Commission say that those reaching pension age "would claim it automatically along with their basic retirement pension" (p.269). But in deciding entitlement the DSS would have to depend on information from the Inland Revenue "with a minimum of additional information required from a minority" (p.269). It is difficult to understand how the scheme could be administered without asking everyone the questions which have to be put to a minority, and without drawing all pensioners into the completion of special, if not routine, forms from the Inland Revenue. Such problems are neither confronted nor absorbed. The Commission say emphatically "there would be no test of assets or income other than pensions and earnings", but then it transpires that income from savings (p.271) and "only the investment income actually received would be taken into account". It is also clear that the level of assets would have to be established (and presumably a cut-off point recommended when entitlement to the pension guarantee is withdrawn).

In short, the Commission tries to disguise the fact that the proposed pensions guarantee will be means-tested, and when the detailed procedures are finally established it may not be easy to differentiate from existing forms of means-tested income support. The sad fact is that the Commission's proposal for a pensions guarantee has not been thought through.

In part the thinking must be historical. One of the strange features of the Commission's Report is their failure to discuss precedents. Britain moved from a means-tested to an insurance-based state pension. Beveridge had good reason to recommend a strengthening of the insurance basis. In 1964 Labour proposed a minimum income guarantee in order to reduce dependence on means-tests. The proposal came to grief. In the words of a leading authority on social security "this emerged in 1966 in emasculated form as the replacement of national assistance by supplementary benefits". Despite the public relations gloss put on it at the time, "the number of old people not claiming the assistance to which they are entitled has only been reduced by a quarter" (Atkinson, 1972, p.19). In one metaphor, a lion was turned into a mouse. In practice, the hated means-test of the days of the Poor Law and the 1930s was once again resurrected. We cannot see any alteration in the disposition of forces which succeeded then in bringing about such a small improvement. For those who are disposed to believe that the failure to restrict means-testing was not very serious, it is important to point out not only the vehemence with which successive generations in Britain rejected means-tested schemes but also the voluminous evidence of their inefficiency. Today even the Government concedes that between half a million and three-quarters of a million older people do not receive amounts of income support to which they are theoretically entitled. In the past independent research has repeatedly revealed that Government estimates of take-up are optimistically high.

There are other problems connected with the proposed minimum pension guarantee. Entitlement depends on the coordination of information about occupational and personal with state pensions. There is clearly a problem of reviewing the guarantee whenever adjustments are made to one of the pensions, annuities and other income being received by any individual. In principle that implies new problems of maintaining equity between different categories of pensioner. It implies a new policy logic: coordination of inflation proofing of payments from the three sets of institutions governing state, occupational and private personal pensions; coordination of rules of entitlement; and coordination of contribution conditions. It is not clear whether or not married women's income would be assessed independently from their husbands' (as suggested by Atkinson, 1994). If not many married women would end up poorer under the MPG than on income support. Then there is the pensions trap, caused by setting the basic pension below the level of Income Support, which is likely to be replicated by Borrie's MPG. Any serious examination of all of this re-opens the entire argument for a much simpler, more efficient and cheaper universal state system. It would have been a great help if the Borrie Commission had been sufficiently independent to set out the attractions of a properly organised, and democratic, insurance-based state pension scheme.

If the Guarantee is adopted it is likely to prove to be the thin end of a nasty wedge. It cannot be administered simply. History suggests it is likely to end up as part of mainstream means-testing. The proposal is already half way to a full-blown means-test, and what is said in the report about the treatment of savings and other assets does not inspire confidence in its success. The scheme is more than likely to revert to type — rather like the last time Labour adopted the idea of a minimum income guarantee. This was in the early 1960s and Richard Titmuss referred to it as a "social revolution," but in the event Supplementary Benefit replaced National Assistance in 1967, and the same old structural and social problems remained.

Personal and Occupational Pensions

The Borrie Commission did not face up to the growing problems of personal and occupational pensions. In today's increasingly insecure labour market neither can offer a viable alternative to state pensions for a majority of the population, especially those on below-average or average incomes. The OECD, one of the organisations pre-disposed to view personal and occupational pensions favourably, was obliged in a 1992 review to acknowledge a number of the disadvantages and to call for more attention to be given by governments to the advantages and not simply disadvantages of public or state pensions (OECD, 1992, especially pp.28 and 91).

Recent claims of improvement in occupational pensions and personal pensions have been exaggerated. Government ministers and quangos as well as institutions with vested interests have played their part in this exaggeration. In particular the close, cosy relationship between the Tory Party and banking, finance and insurance moguls must give Labour pause for thought. These vested interests are opposed to state pensions. The Department of Social Security paper, *Options for Equality and State Pension Age* (1991), misled readers on the source and adequacy of older people's income. As an Office of Population Censuses and Surveys (OPCS) survey published in 1992 showed (Bone et al, 1992) fewer than half of those approaching retirement age had any occupational rights. This report revealed that 68 per cent of men aged 55-69 but only 29 per cent of women of that age had any entitlement. A 1994 review by the Government Actuary showed that membership of occupational schemes among the employed population had reached its peak as long ago as 1967 (53 per cent) and had actually declined from 52 per cent in 1983 to 48 per cent in 1991 (Daykin, 1994, p.19). The figure for women has levelled off at around 35 per cent but for men has declined sharply from 64 per cent to 57 per cent.

Moreover the entitlement of many members of occupational pension schemes is very small. As another report made clear, 'the majority have no alternative to the state pension as the main source of income' (Ginn, 1993). In effect, the rising real level of pension income among the top 20-30 per cent of the older population, together with the increasing addition to the basic state pension represented by the phasing in of SERPS, has been used to promote an unduly favourable picture of the rise in pensions income generally (Hancock, Jarvis and Mueller, 1995).

It is important to be clear about the expectations for both occupational and personal pensions. Very high levels of unemployment, together with the casualisation of part of the workforce and particularly the increase in number of self-employed and part-time workers, has removed the opportunity for a very large percentage of the population ever to enter commercial schemes, or to derive much benefit if they do so for just a few years. The prospect of a much greater mobility within a European labour force adds to the future problem. And recent evidence of loss of pension entitlements because of mergers of companies and future pensions asset stripping show how difficult it will be to regulate occupational pension schemes across Europe. Older women are at a particular disadvantage, for example with regard to sex-biased actuarial tables in money purchase schemes and following divorce or separation.

There are convincing reviews of some shortcomings of occupational pension schemes. Members tend to lose benefits when they change jobs (this early leaver problem is inherent in occupational schemes); they suffer when schemes are wound up or taken over by multinationals; the value of the pension is eroded after retirement; pension trustees are not sufficiently independent (as exposed by the Government's 1995 Pensions Bill); and employers can often benefit unduly from pension fund assets (see for example, Nobles, 1992). With regard to private or personal pensions, high administration costs weighted against small contributions are inescapable. The hazards of the accumulation in a number of countries of private pension assets are summarised in an OECD report:

> A series of controversial developments, practices and issues have come to public attention. These include the role of pension funds in hostile corporate take-overs and leveraged buy-outs, the exercise of voting rights associated with stock held by pension funds, the use of pension funds for social investment, and the general impact of pension funds on the volatility and other aspects of stock markets. These issues are subsumed under a more important question: who owns, and therefore who should control, pension assets. Thus far the legislative responses have not provided much guidance with respect to this larger question. (OECD, 1992, p.91)

In 1995 the Securities Investment Board report on the £billions to be awarded in compensation for wrong advice about switching to a personal pension, together with reports of the difficulties of occupational pension funds when they are taken over by multinational companies, make uncomfortable reading.

Public pension schemes make even better sense than they did in Beveridge's day, and there is no reason why they should not be more accountable, democratically run and in certain limited respects localised — compared with their management after the war. For example, it would be possible to add 'care insurance' or 'nursing insurance' to the contribution for the basic pension as in Germany (Ploug and Kvist, 1994, pp.96-98). However, our preferred option for long term care and, incidentally, the preferred option of the British people, is local provision in kind financed by taxation (Walker, 1993).

In the UK the number of people with a personal pension now exceeds 5 million. The figure applies to 26 per cent of full-time male employees, 19 per cent of full-time female employees and 11 per cent of part-time female employees. The figures are much higher for the self-employed, though the difference between men and women persists. (This, of course, is because self-employed people do not have much option but to seek private provision, if they do not want to live on the National Insurance pension alone.) According to Age Concern occupational pension schemes provide poorer value for equivalent contributions than the State

Earnings Related Pension Scheme (Age Concern, 1994, p.35). According to consulting actuaries Bacon and Woodrow occupational schemes will provide between 50 per cent and 66 per cent of final salary, depending on the number of job changes, while personal schemes provide between 20 per cent and 40 per cent of final pay (Bacon and Woodrow, 1993) — at the same level of contribution.

Administrative charges can take up more than 20 per cent of the total costs of private schemes. They are far more expensive to administer than occupational schemes (Davies, 1993). This is not a new factor in the evolution of policy. It was a prime consideration when Beveridge came to recommend universal state pensions based on improved and extended social insurance.

There are some imaginative proposals to reform personal pensions. One such proposal is to 'turn the Left's traditional approach to the Welfare State upside down' and make private pensions compulsory — by setting a legal framework of pension contributions and a higher level of Guaranteed Minimum Pension (Field and Owen, 1993, p.23). But this also would involve turning the traditional values of business ethics in the UK 'upside down'. The private sector would have to accept a degree of planning which it has shown no disposition to concede; administrative costs would be enormous; and 'universal' coverage, on all historical and contemporary evidence, would be an impossibility. As the OECD review suggests, regulation would become a nightmare; there would be insoluble problems in defining minimum entitlements and covering people when they are unemployed or sub-employed, and inequalities between the high paid and the low paid would grow by virtue of submitting pensions more generally to the play of market forces (OECD, 1992, especially Chapters 1, 2 and 4).

The State Earnings Related Pension Scheme (SERPS)

The 1975 Social Security Pensions Act introduced a second-tier state pension, and payments (at that stage very small payments) began in 1979/80. By gradual stages it was intended that people retiring in each successsive year would qualify for an increasing amount until, after twenty years, they qualified for the full additional pension.

In the words of one of the members of the Borrie Commission,

> There can be little doubt that the SERPS scheme as originally introduced, would when mature have gone a long way towards ensuring an adequate minimum income in old age . . . The number of pensioners on means-tested assistance would have been reduced to a third, and . . . on more optimistic assumptions very few would have had to resort to assistance. (Atkinson, 1994, p.11)

This was the plan initiated by Barbara Castle, which, it should be noted, was enacted with all-Party assent. In his 1994 lecture quoted above Professor Atkinson also states that his preference is for a restoration both of the basic retirement pension and a new version of SERPS, incorporating the former expected level of benefit (Atkinson, 1994, pp.21-22). Professor Atkinson goes on to note that the Fowler 'reforms' of the mid-1980s scaled down SERPS, and many pensioners in the future will fall short of the minimally adequate pension set in the 1970s. Thus, in a written answer to a Parliamentary Question (Hansard, 31 January 1994) the DSS showed how much SERPS was worth for contracted-out employees with average earnings who retired at the pension age in various years from 1979-80 to 1993-94. The SERPS value was £1.56 per week in 1979-80, and gradually increased to £8.93 per week in 1989-90 but, as a result of the Fowler legislation, fell back to £5.29 per week by 1993-94. In a further written answer (Hansard, 23 January 1995) the Secretary of State for Social Security admitted that the 1995 Pensions bill would further reduce expected pensions under SERPS after the year 2000 by up to £2.70 per week in the first year and by up to £4.90 per week by the year 2020 — saving £2.36 billion per year by 2050.

Labour's decision on the future of SERPS is crucial not just for the pension prospects of average and low paid workers but for the expressed aims of restricting the evils of means-tests, enhancing savings, and laying a secure basis for employment and retirement. The Borrie Commission reported that it could be improved: by bringing in the self-employed, by bringing in more of those involved in home care of elderly and disabled people, and by improving levels of benefit. They add that "SERPS is also particularly good for women" — who are less likely to have occupational or private pensions, and more likely to have had interruptions of working years.

But the Commission also emphasises the disadvantages rather than the advantages of Pay As You Go funding, the complexities of a system for people of different ages and the long-term implications to reduce pensions for the low paid of a scheme combining basic and earnings-related pensions which is only tied to prices (pp.275-277). Too much is made of these 'problems'. After all, the third was self-induced by the Thatcher/Major Governments; the second is far smaller than the combined complexity of hundreds of private and occupational schemes, and the first does not really exist. Thus there is a fundamental difference between 'funding' by an organisation which can go bankrupt, or get taken over by a multinational company, and 'funding' by a government representing an entire population. Accountability for all future liabilities, or contingencies is very different, and the risks faced by government relatively small. We can make the reasonable assumption that in 40 years time there will still be a Britain with a working population glad to go on paying contributions for their own dependencies even when they know that it is the next generation of workers who will be, in the main, footing the bill.

We believe that the original version of SERPS was sustainable and, in comparison with levels of contribution and expected levels of pension in corresponding occupational and private pension schemes, generally better value for money. We also believe that this kind of scheme is the only viable one for the low paid and intermittently employed, especially women, in today's labour market. The latest reports from the Government Actuary uphold this conclusion. He has given detailed statistics of cost, according to various options, in relation to population change, levels of employment, and levels of contributions. The calculations show that while of course the Government may need to take measures to control revenue as well as benefit levels in relation to its other objectives, overall cost cannot be regarded as the pre-determinant of the structure of the scheme. The principal questions are political questions — of the distribution of costs as well as benefits, what would promote rather than deter employment, what would promote rather than deter savings, how short-term poverty can be ameliorated, and long term poverty averted.

Although there were plainly differences among the members of the Borrie Commission, it seems to have made a *collective* judgement that remedial action to wholly or partly restore the relative values of both the basic pension and SERPS was no longer practicable. That judgement has to be challenged on grounds of both principle and practice. The structural arithmetic of the 1970s about costs and potential contributions has not changed to the extent implied by the Commission. True, more people are unemployed and more have been prematurely retired. The tax base has also been eroded to some extent by low pay and part-time work. But real incomes at the top of the income distribution have swollen unpredictably, and the creation of more jobs by government action (as envisaged by Labour) would ease any perceived problem of balancing costs and income. The reversal of the trend towards early labour force exit and the utilisation of the skills of older workers should be a priority in Labour's employment policy. The political problem is much the same, namely to choose the right priority and to explain to a receptive public that collective and personal security can be safeguarded most economically by this means — with the freedom to make individual arrangements to add a further tier to retirement income.

The big question is how incomes in retirement should relate to incomes in paid employment, and whether, as part of retirement incomes, the costs of a minimally adequate basic pension, for the low paid, disabled people and those experiencing spells of involuntary unemployment, should be met from a percentage of earnings willingly contributed into a national scheme. This would achieve three objectives which could not be met by occupational and private schemes: it would ensure an adequate pension as of right to those who otherwise could not obtain that benefit; it would contribute powerfully to social integration as well as individual security; and, because of economies of scale and universality of coverage, the pension would cost less to provide than any alternative.

The Government's Pensions Act

The 1995 Act introduced by the Government is, as critics have declared, "a rag-bag of a measure" (Ward, 1995). Although originally it was supposed to be just a Bill about changes in the law on occupational pensions it has introduced further cuts in SERPS, raising the state pension age for women, and giving an additional boost to occupational pensions. In fact the rather modest proposals for occupational pension reform, put forward by the Goode Committee, have been watered down. Principally this is because employers' rather than members' rights have been given precedence whenever a conflict of interest has had to be decided. This means ultimately that safeguards against a predatory successor to Maxwell have not been put in place and future interpretation of certain members' rights, as for example in prospective take-over situations by transnational employers, is left with the employer. There is a need also for legislation to ensure that pension fund surpluses are used only to benefit pensioners.

Income Inequality

What are the supporting arguments for modernised social insurance pensions which include flat-rate and earnings-related elements? The Borrie Commission properly called attention to both the extent of inequality in society and the widening of the gap between rich and poor since 1979. But they did not highlight the severity of that trend. Thus they pointed out the fact that, while average retirement incomes had increased, the wealthiest 20 per cent had gained far more than average, while poorer pensioners had gained far less than average. What needs to be brought out is that among the poorest pensioners there has been a decline in real incomes since 1979. The fall applies to fewer pensioners than families with children, but applies nonetheless. Part of the explanation is the withdrawal of entitlement to additional dietary, heating and other allowances under the former supplementary benefit scheme, which were not covered by the higher basic rate of income support for older people in the case of disabled older people.

Neither did the Commission explain how the widening gap in incomes could be halted and perhaps reversed. Thus the richest fifth of the population has seen its aggregate share of disposable income increase from 35 per cent to 43 per cent and the share of the poorest 20 per cent has declined from 10 per cent to 6 per cent. Different factors have of course contributed to this trend. There has been greater inequality of wages and salaries, typified by the furore about the accelerating salaries and bonus payments received by the chief executives of the privatised utilities as well as the derisory hourly rates of pay of workers formerly protected by Wages Councils, as quoted in recent publications from the Low Pay Unit. This affects wealth as well as earnings. According to the *Sunday Times* the wealth of the richest 200 in Britain increased between 1989 and 1994 from £36 billion to £54 billion. What we have to remember is that in the companies, merchant banks, property and financial management services and other organisations over which these people reign, there is an elaborate hierarchy of earnings, assets and roles.

Taxation, privatisation and cuts in pensions and other social security benefits also play their part in the trend towards growing inequality. Each deserves the kind of in-depth analysis and policy proposals that the Borrie Commission does not provide. There are key questions of principle about fair remuneration for different levels of employment, the definition of a minimum level of benefit, and fair rates of taxation.

The Commission say, timidly, that improvement of the basic retirement pension would be "expensive." But this view is not properly argued in relation to the movement in earnings levels, insecurity of much present employment, administrative efficiency, public psychology and much else besides. Above all it is not argued in relation to economic growth, the aggrandisement of the already rich, and the very different priorities of governments in other European countries. By the time of the next election there will be even more of a shortfall to make up than there was in 1992 and there is little sign within Labour's policy circles of a positive argument for £8 plus (for a single person) and £15 plus (for a couple) as interim steps to begin to repair the awful damage of the Thatcher and Major years. To put the matter bluntly: The UK has larger resources than it did in the 1970s to ameliorate the stark living standards of the poorest pensioners. Yet in the last 15 years the disposable income of single pensioners and pensioner couples in the poorest 10 per cent has fallen in real terms, compared with 1979. In an answer to a Parliamentary question (from Jean Corston) in December 1994 William Hague, the then Social Security Minister, revealed that the single pensioner in this poorest group is £676 a year *worse off* (in 1994 prices) than in 1979.

Extending Social Insurance

It will be impossible to develop a viable pensions policy without European policy collaboration. A number of European countries have a deeper commitment to social insurance schemes than does the United Kingdom. The schemes of some of them, like Germany, date from the late 19th century and were substantially improved in the early post-war years (especially through earnings-related pensions) and then again during the 1970s and early 1980s when economic growth in the UK was relatively low. Levels of benefits are often much higher than in the UK and were not cut back to the same extent in the 1980s. The change from the earnings-related to the price-related formula of the Retirement Pension, and abolition of earnings related Sickness and Unemployment Benefit, together with the reduction in scope of both Sickness and Unemployment Benefit, are the major examples. While the British national insurance scheme was being cut back in the 1980s some other leading EU countries were extending theirs while the southern European states were building up their schemes (though it cannot be claimed that Britain was alone in cutting its pension system, its cuts were the most extensive). This process continues in the 1990s, despite some modest changes in pension ages and entitlement conditions, as the example of the new long term care insurance benefits in Germany demonstrates.

The likelihood is that for both political and economic reasons contributory insurance will be stabilised, with income support or social assistance being reformulated to cope with much larger numbers of migratory workers and retirees. For reasons of social stability as well as to provide a basis for high productivity, the UK's strategy should be to emphasise the former.

Universal benefits in the UK are at a cross-roads. The problem is not that they should be made more selective but that their role should be greatly improved to suit modern conditions. This means better provision for interruptions in employment, part-time employment, migratory labour and populations, and coverage for the hard work of those involved in the care of children, and disabled and older persons. The problem is not to defend an old institution for the sake of tradition and familiarity but to use an efficient, economical and socially integrative mechanism to new advantage.

The latest evidence from the European Observatory on Ageing and Older People shows that among member countries the United Kingdom, with Ireland, provides at retirement the lowest pensions relative to previous average earnings (Walker, Alber and Guillemard, 1993, p.31). This 'net replacement ratio' is a good indicator of the adequacy of pensions for people now retiring — though of course the circumstances of those who have been retired for some years may be (usually are) much poorer. The ratio is substantially smaller than it is for countries like France, Belgium, the Netherlands, Italy and Spain. Even when occupational pensions are added to the state pensions the United Kingdom still compares unfavourably in adequacy of retirement income with most fellow member states of the European Union.

A modernised version of social insurance has to be seen as an integral part of a wider policy of economic and social development. This is partially, but not fully, recognised in the EU's social chapter. The social chapter provides for workers to have a right to social security benefits of a sufficient level; and for those excluded from the labour market to have a right to a guaranteed level of resources. Inevitably there will be sharp arguments about the definition of these entitlements but confirmation of the link between contributions and benefits will help to lift some of the downward pressures of fiscal competition. The strengthening of social insurance is a long term and not short term element of social policy, which will provide partial defence against temporary pressures to undercut wages and employment. Incidentally social insurance also provides an example of the better usage of the principle of subsidiarity — by allowing connections to be made between national, regional and local schemes affecting relations between governments and subsidiary organisations of workers and employers.

Better State Pensions

There are two further driving motives for reconstructing pensions. One is that the resources for pensions are too unequally distributed. For the same costs, many more pensioners, especially disabled pensioners and women, could escape poverty.

Second, the government has weakened universal pension provision in favour of strengthening private and occupational provision. Changes in the labour market and the growing power of multinational firms, weaken the argument for these alternative forms of individual security. Contractual protection, and collective entitlement within employment, have become, and are becoming, more difficult to ensure. In the absence of supra-national authority and dependence, national pension schemes based on willingness to pay (through contributions) in exchange for guaranteed entitlements underwritten in national law become the overwhelmingly preferred option. This is 'preferred' by the population, and not just on the basis of reviewing contemporary evidence.

Labour must take note of public opinion on the central issues at stake. For example the 9th Report on British Social Attitudes stated:

(i) "Not only do the British reject *cuts* in public spending on health and education: a majority claims to support *tax increases* to finance more spending on welfare services . . . Indeed, 1991 saw the largest year-on-year rise in the survey series' history in the proportion of repondents claiming to be willing to see higher taxes to pay for more social spending" (Jowell *et al*, 1992, pp.42-43). (Since 1983 those supporting the idea of increasing taxes and spending more has increased from 32 per cent to 65 per cent).

(ii) "The favourite priority for more spending has always been retirement pensions . . . The most striking change in recent years has been an increase in support for more spending on child benefit" (Ibid. p.42).

(iii) "Three-quarters of Britsh respondents to the 1987 survey said that income differences were too large — a higher proportion than in any of the other six countries surveyed except Italy" (Ibid p.43).

The Eleventh Report confirms this trend. As many as 78 per cent said that more should be spent by the Government on pensions (Jowell et al, 1994, p.7). In his opening chapter in this latest report David Lipsey pointed out that among Conservative and Labour voters opinion was 'still firmly tilted towards keeping the key pillars of the welfare state intact' (Lipsey in Jowell et al 1994, p.11,).

Similar opinion poll evidence has been collected by others. A Eurobarometer survey shows that as many as 56.6 per cent of a sample of the UK population aged 16 and over agreed with the statement "Pensions are too low and should be increased — even if this means raising taxes." An almost identical percentage agreed that the level of income provided by the state should be "something closer to the average wage for people still in work" (Walker, 1993). This EU survey also revealed, on the one hand, the overwhelming support of the British public for the maintenance of intergenerational solidarity in pensions and, on the other, the economic pessimism felt by many of those of working age about their future pension prospects. One of the great puzzles of modern politics is why Labour has not grasped the fact that state welfare is popular and, above all, state pensions are popular. There are massive vote-winning opportunities to be seized.

Revitalising National Insurance

Within any government's general strategy for social security the treatment of pensions is of central importance. All modern welfare systems were founded in provision for older people and they will continue to be the largest group of beneficiaries. We have argued that social insurance is a key principle that is both socially integrative and economically efficient. We recognise that changes have to be made in the structure of the Beveridge scheme in order to modernise it. These changes include a widening of coverage, specially for part-time and temporary employed, and self-employed, equity for women, and special arrangements for unpaid carers.

It is possible to design a public pension system that is flexible in response to changing labour market needs and yet which does not penalise part-time workers, the unemployed, disabled and those providing unpaid care. The Danish Social Pension is paid to all those with 40 years residence in Denmark at age 67, irrespective of their employment record or marital status. Four-fifths of Danish pensioners rely on the Social Pension for almost all of their income yet their standard of living is higher than that of most British pensioners. The pension provides a disposable income after housing costs which is 77 per cent of the average income for the whole population (Platz and Peterson, 1992).

III

Proposals for Labour Policy

Our proposals are both general to National Insurance and specific to pensions policy.

Recommendations for National Insurance

(i) eligibility has to be widened to include part-time workers and carers on an equal footing with full-time employees — with particular attention being paid to the equal status of women (divorced and separated women are particularly vulnerable to poverty in later life) — indeed there is a strong case for treating women's employment patterns as the norm for pension purposes, since the majority of pensioners are women;

(ii) those prevented from contributing via paid or unpaid employment should nonetheless be included within the ambit of national insurance, both as an expression of national solidarity and in recognition of the social causes of disability;

(iii) contributory income has to be raised more equitably from all, including top earners and from all employers — whatever the temporary or permanent status of their employees — and from all self-employed people;

(iv) centralised administration by the state must be augmented by local representation from contributors and beneficiaries. This will ensure feedback from users concerning standards of service and emergent needs.

Recommendations for Pensions

1. **An immediate objective of policy must be to raise the basic state pension relative to earnings, and then to restore the annual earnings-indexing formula.** This would acknowledge the principle that for all citizens living standards during paid employment must be related to living standards planned for subsequent retirement,

and must simultaneously be related to the living standards of people in society who are already retired. A once-and-for-all increase of 10 per cent in basic pensions would cost £5 billions — which could be covered by the withdrawal of personal pension subsidy and other cuts in tax allowances.

2. **An additional once-and-for-all increase in the basic state pension should be paid to the over 75s.** This would provide a measure of equity with those aged 65-74 who have had greater opportunities to build up income for retirement. For example, a 2 per cent increase (on top of the 10 per cent increase for all age-groups, would cost £0.6 billion).

3. **An associated disability pension should be introduced to meet the *additional* costs borne by older disabled people. The reconstruction of the basic pension scheme should provide for the eventuality of (further) disability during retirement. This would take two forms: (i) an extension of the disability living allowance for moderate and severe disability which arises after 65 (at present people over 65 cannot claim the allowance); and (ii) an integrated care and nursing allowance for carers of retired people who require substantial home or residential care.** We estimate that a first stage for severely disabled elderly would cost £0.6 billions (net).

4. **A planned reconstruction of the basic state pension would necessarily mean developing a more constructive balance between public and private retirement income and clarifying, and making public, individual costs and prospects.** Savings would be made by removing government subsidies from personal pensions, and opposing the steps taken and being taken by the present government to privatise the state earnings-related

pension scheme. The excessively favourable treatment of top-hat pensions and golden handshakes at retirement would also be curtailed by lowering the 'cap' for tax relief (currently £78,000) and establishing common payment and benefit principles in the public and private sectors.

5. **The reconstructed state pension scheme might be entitled 'National Pensions' or 'Citizen's Pensions' in recognition of their greater inclusiveness than even the current National Insurance Pension.** This would reflect its objective of linking the generations in a common scheme. This measure of integration would be reinforced, and incentives for caring in the community heightened, by introducing locally elected influence over the disability and over-75s elements of this basic pension scheme (either through special elected boards or through local authorities).

6. **The State Earnings-Related Pension Scheme will be reconstructed — not replaced by a wholly funded (and therefore lesser) alternative.** In the 1995 Pensions Act the scheme, which has already been drastically cut by the 1986 Social Security Act — including a cut by half in a widow's entitlement to a deceased husband's pension — will be cut further. This is due partly to the raising of women's pension age. By the turn of the century the scheme will be down to a quarter of the value of what was intended in 1975 when it began, and yet nothing has been put in its place. Low paid people have little or no opportunity to become members of occupational and private schemes and, anyway, such schemes are more costly to enter, and are much less secure than SERPS. A new government should take heed of the models in most other European Union countries and reintroduce SERPS, with its original formula restored, to fill in existing inequitable gaps and raise revenue, by means of earnings-related contributions, for individual provision. This would be

cheaper, for both individuals and the state, than any known alternative, and be an important element (for savings and calculated planning) in the management of the economy.

7. **Affordability.** Contributory income would be increased on the basis of widening eligibility for benefits as recommended above. The additional costs of a modernised and revitalised scheme for social insurance could be met partly by extending the national insurance contribution to the top of the earnings scale; partly by selective cuts in tax expenditures (for 1992-93 the cost of mortgage interest tax relief was £5.2b., the married couples allowance £4.6b. and personal pension subsidy £1.6b.), and selective increases in corporation and inheritance taxes. The government estimates tax expenditures at £114.1b. (1992-3) and there are good grounds for reducing it sharply, say, by 10 or 15 per cent (i.e., £11-16b — of course only part of such a sum would be available for pensions). This would be a principal strategy in clawing back at least a third of the additional £35b. per annum now going to the richest fifth of the population (this sum representing the aggregate extra disposable income now received, compared with the 'share' of such income they had in 1979). Tax relief on private pensions is equivalent to about 15 per cent of total tax revenue, sufficient to fund more than one-quarter of the cost of the state pension (Sinfield, 1993). It is also clear that governments in other EU countries expect employers to pay larger contributions towards public pensions than they do in Britain. For example employer contribution rates start at 8 per cent of earnings in France, 9.6 per cent in Germany and only 3.6 per cent of (low) earnings in the UK. British employers pay £10 in social security contributions for every £100 in wages, compared with 33 currency units per 100 in Germany, 43 in France and over 50 in Italy and Sweden (Ginn, 1995).

We recommend a cautious, phased, introduction of this new pension plan: in the first year £2b from savings on the personal pensions subsidy; and £3b from savings on other tax allowances. In a second year, in addition to the £5b from these savings would be £3b from further savings on tax allowances and £3b from new contributory income (starting in the second year only because time will be needed to enact the necessary legislation), rising to £10b when the modernised scheme is fully implemented and running.

Of course such proposals require detailed formulation by a Labour Chancellor of the Exchequer. Our estimates are approximate only, though they reflect information released by the Treasury and other official or semi-official sources. Certainly the estimates show that the cost of restucturing pensions and National Insurance would not be large in relation to the national budget.

The cost of re-establishing the link between earnings and the basic retirement pension, and of improving coverage for benefit, would be met by automatic increases in contributory income from earnings, including new contributors, and higher contributions from top earners. Offsetting increased contribution income would be substantial savings on taxable income by means of the withdrawal of tax allowances on personal pensions and of other subsidies. In our view this change in financial management is economically more efficient *and* more acceptable to public opinion than any of the other models on offer.

These proposals for pensions differ from the strategy adopted by the Borrie Commission, and from first reports of the policy to be recommended by the Labour Party's National Executive Committee.

The NEC policy statement does not include a commitment to wholly or partly restore the value of the basic pension in relation to average earnings, nor the value of the State Earnings Related Pension Scheme, to enable increasing numbers of pensioners to escape means-tested income support. Instead, 'some form' of Minimum Pension Guarantee would be introduced so that those with incomes below the guaranteed level would receive a 'top-up' to that level: but the principles of adequacy according to which this level should be defined are not specified. And SERPS would be replaced by a funded second-tier state pension scheme which would conform with the funding of occupational and private personal pension schemes. The financing of the basic retirement pension would also conform with such funding. Necessary consequential changes to Income Support are not mentioned.

There are fundamental objections to this course of action, which we believe need to be considered urgently during 1995 and 1996 at all levels in the Labour Party and by the public at large. They are outlined in this pamphlet:

(i) The MPG is in fact a means-tested benefit — contradicting the declared objectives of the Borrie Commission, and the Labour Party's NEC;

(ii) It will not work: on past evidence the Minimum Pension Guarantee will become much like other means-tested schemes and will not reach more than a small minority of those for whom it is primarily intended, namely pensioners eligible for, but not claiming income support;

(iii) It will be inefficient: immense national resources will be devoted unnecessarily to the proliferation, administration, and regulation of many different pension schemes as well as an enlarged system of means-tested social security;

(iv) It will worsen the widening gap between rich and poor pensioners;

(v) It will shift the balance further away from collective security to individual insecurity;

(vi) If a second tier funded state pension replaces SERPS it will reduce the chances of the low paid obtaining minimally adequate pensions and will pave the way for divisive, unfair and highly costly privatisation of pensions;

(vii) It will weaken the basis for unemployed and part-time workers getting back into regular full-time employment and therefore undermine the role of social security in contributing to a stable and productive economy; and

(viii) It will worsen 'value for money' and the fiscal problem of meeting retirement costs.

The nation has become much more unequal in the last 16 years. This is becoming much more than a matter of immediate concern. It is threatening the security and living standards of the future retired section of the population, and therefore of all those currently in paid employment.

The priorities in policy 1-7 (pp.34-37) listed above will inspire public confidence in Labour and give Labour's supporters new heart. Follow-up measures to develop contribution conditions and entitlements to help intermittently employed and unemployed people, those on very low wages, disabled people and women in general, will also be necessary.

The immediate steps which have to be taken are *affordable* — whether in terms of rational analysis of the overall current and prospective costs of all forms of pensions (as described above in relation to the costings of the Government Actuary); whether in terms of the levels of national insurance employers in other EU countries are expected to contribute; whether in terms of the size of national insurance contributions which the employed population are willing to pay; and whether in terms of the huge amounts of revenue awaiting collection from a fairer tax system — through a principled crack-down on tax avoidance and evasion, through removing wasteful and unnecessary tax allowances, and the taxation of new tranches of excessive wealth.

The immediate action on pensions will also mark a change of direction which is desperately needed. A measured statement about universal pensions will allow a wider policy to be developed for disability benefits, child benefit and child care allowances, and unemployment benefit as well as training allowances. It will assist the planning and improvement of long-term care. It will also send a clear communitarian signal to the British people that Labour recognises the vital importance of solidarity between the generations and that its policies in office will be designed to support this essential element of social cohesion. It will begin to turn back the Tory years of selfishness and individual greed and help to re-establish collective purpose among all generations.

In general terms the ideas of public service and public ownership of key utilities and services have to be restored to a central place in Labour thinking. This is necessary to halt the slide into greater inequality and deeper impoverishment brought about by 16 years of Conservative Government but also, as has to be increasingly recognised, by the forces of the international market. A modernised National Insurance Pension system will provide the individual economic security on which national prosperity can be re-built.

Appendix

Timetable and Summary of Costs of Proposed Citizens' Pension Scheme and Measures to Cover Additional Costs

1. First year:

(i)	Ten per cent increase in basic element of retirement pension	£2.9b.
(ii)	Two per cent addition to that basic pension for over-75s	£0.3b.
(iii)	Preparation of legislation on (a) annual earnings-related uprating to half replace price-related formula and target level of pension 'adequacy' in relation to earnings after 5 years; (b) preparation of parallel legislation reconstructing contribution rates for first and second periods of 5 years so that emerging costs are covered.	
(iv)	Immediate measures through a Finance Bill to meet the costs in (i) and (ii) above by removing the Government subsidy to personal pensions, reducing the level of tax allowances initially by 5 per cent and raising the ceiling of earnings (currently (£70,000) up to which national insurance contributions are paid.	

2. Second year:

(i)	Introduction of additional disability pension for severely disabled elderly.	£0.6b.
(ii)	Implementation of legislation to re-introduce annual increases in the basic element of the	

retirement pension which are related to increases in average earnings. According to current Government assumptions this would increase pensions by 1.5 per cent more than prices — or by about £1.50 per week for a pensioner couple in 1995 prices. The total cost would be £0.4b. in the first year of full operation. £0.4b.

3. Third year:

Introduction of legislation for an updated and improved version of the state earnings related pension scheme to bring about the provision through earnings-related contributions towards a higher basic pension, and an earnings-related additional pension to reach a pension of 50 per cent of previous individual earnings.

4. Long-term costs:

The government Actuary has in 1995 provided estimates of the total cost of different options — both price-related and earnings-related. The calculations of course depend on forecasts of the growing elderly population — but demography is not a sufficient reason for selling short future generations of older people. The growth of the retired population is not expected to be as fast as it has been in recent decades, and the rate of increase had already declined. Thus, the DSS pointed out that between 1981 and 1992 the number of working age adults increased by 1.7 million and the number of people of state pension age by 0.5 million (to totals of 34.6 millions and 10.4 millions respectively). The DSS go on to point out that between 1992 and 1998 these two figures are expected to grow by 0.6 millions and 0.125 millions respectively (DSS, 1995, p.20). For each additional person of pension age there are three or four additional adults of working age (DSS, 1993).

The key factor is the percentage of adults of working age who are employed or self-employed and have earnings from which pension contributions can be deducted. Their numbers can vary sharply and there is little to be gained from guessing their numbers more than 10 years ahead. Taken with uncertainties about predicting longevity, fertility and migration it is easy to paint either rosy or crisis scenarios. The DSS figures for 1981-1998 quoted above show that alarmist accounts of the 'escalating' costs of ageing have to be put into measured perspective (DSS, 1993).

Largely because of unexpected growth in numbers at work and some fall in numbers of unemployed claimants the DSS itself has been obliged twice in the last 2 years to revise downwards prospective figures of the costs of pensions and social security (DSS, 1995, pp.10-11).

If all social security benefits were unprated in accordance with earnings rather than prices, and the same applied to contributor rates, the Government Actuary estimates that the combined percentage of average earnings paid by employers and employees would be 20.9 per cent in the year 2010-11 instead of 17.6 per cent — compared with the figure of 18.25 per cent at the present time (the Conservative Government has cut expenditure through the Job Seekers and Pensions Acts) (Government Actuary, 1995, p.14).

Additional revenue for pensions should be produced by raising the ceiling on contributions, by withdrawal of tax reliefs on the pensions contributions of highly paid employees and by other measures. We have put forward calculations which do not affect current rates of personal income tax — though of course arguments can be made for that as an alternative or partial source of appropriate revenue. We believe that a 5 year or 10 year rolling programme for benefits and costs is the responsible form of pensions management. As we have said, in considering the uncertainties of labour market, mortality, fertility and migration forecasts it would be irresponsible to use any particular forecast for 50 years hence to restrict national capacity to deal with the economic and social situation here and now.

We estimate that the proposals made in this paper for the basic element of the retirement pension would add just over 1 per cent to the national insurance contribution rate for the year 2010-11 estimated by the Government Actuary. However, if the Government Actuary's assumptions of 1.5 per cent growth proves to be 0.5 per cent to low (because it has been 2 per cent on average since the 1939 war), and if unemployment proves to be 3 per cent lower than he has assumed, then the restoration of the link between the basic pension and average earnings could be financed by the present rates of contribution under national insurance.

We believe the evidence from experts about rival options supports optimistic planning for pensions. Basic pensions as of right, reinforced by an additional state-earnings-related pension, to a modest target of a 50 per cent pension for the average earner, are affordable, depending only on regular five and ten-yearly reviews.

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Printed by the Russell Press Ltd. Tel: (0115) 9784505.

Second printing, January 1996

Published by Spokesman for European Labour Forum, Bertrand Russell House, Gamble Street, Nottingham, NG7 4ET. Tel: (0115) 9708318. Fax: (0115) 9420433.

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ISBN 0 85124 586 2