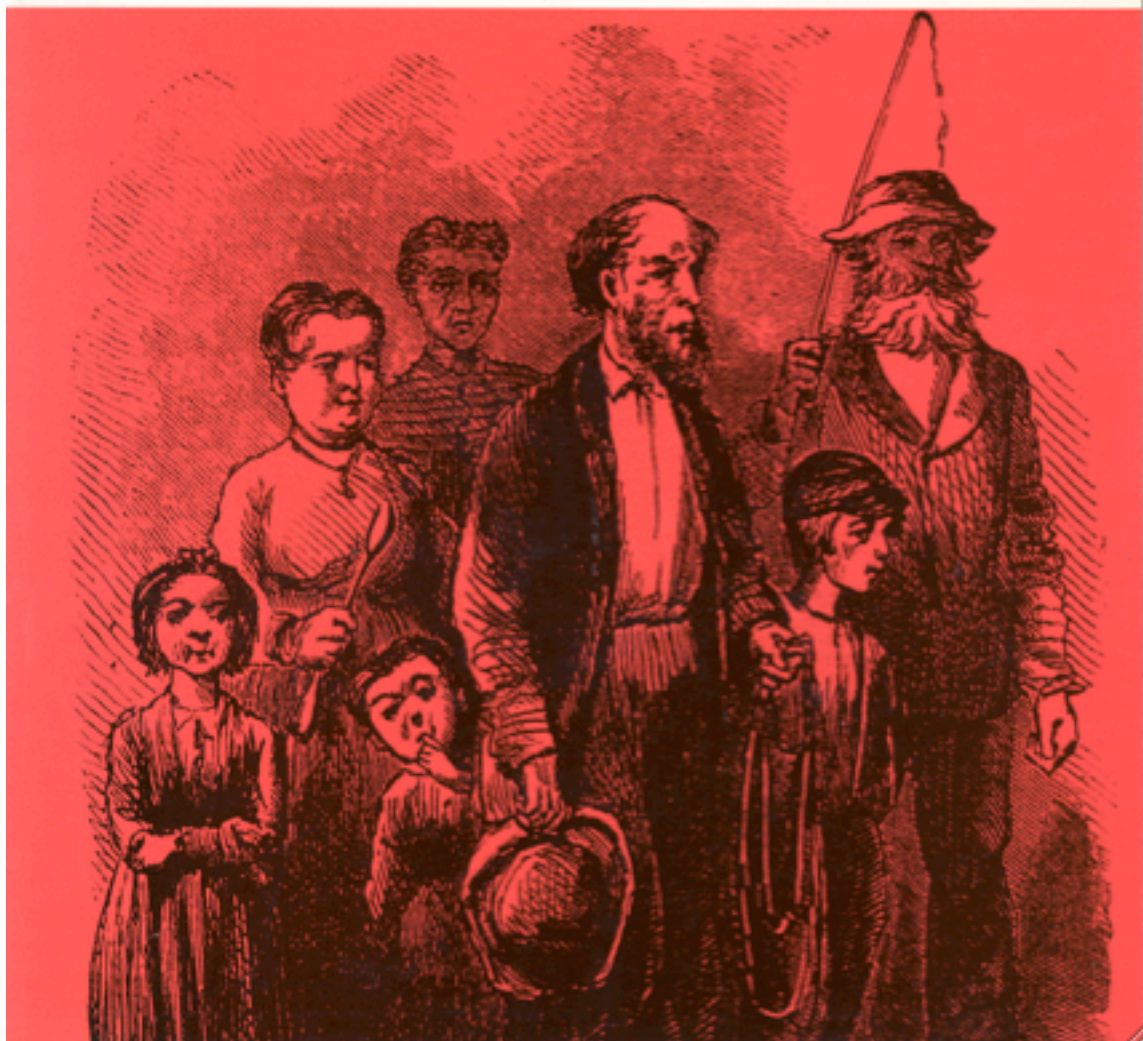


A FRIEND IN NEED



BASED ON AN IDEA BY FRANK FIELD MP

Timothy Evans



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This paper builds upon an idea published by Frank Field in a Sunday Times article. Independently of Mr Field, it develops and expands that idea.

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1. INTRODUCTION

In an article which appeared in the Sunday Times on 22nd July 1990 entitled 'Giving the public a bigger dole of authority', Labour MP Frank Field stated the urgent need to rethink the collective provision of unemployment benefit. Given the manifest conservatism of many of his political colleagues, Field's article represented a brave, if not somewhat overdue, re-evaluation of state welfare from within the Parliamentary Labour Party.

Responding to the inefficiency and unpopularity of the present unemployment benefit scheme Field states:

“The fact is that privatizing the dole would strike a sympathetic note with many workers who have been messed around while trying to earn benefit. Failure to provide first-class customer service taints the whole system.”

In a worthy attempt to transcend the narrow confines of the postwar settlement, Field breaks the mould by referring to the problematic effects of political intervention. Lamenting the demise of traditional, community and individually oriented welfare schemes he states:

“When establishing the national insurance scheme at the turn of the century, Lloyd George was forced to leave in place the friendly societies as the instruments by which state benefits were paid. There they remained until 1945 when, in one fell swoop, the implementation of the Beveridge proposals was used to bring about the largest ever concentration of state power. Friendly societies were obliterated and state social security offices took over as the means of delivering benefits to customers.”

In a profound move away from the twentieth century orthodoxy of his own party, Field advocates a radical restricting of the national insurance and unemployment benefits system. Rejecting the traditional language and ideological baggage associated with the welfare state he asserts that under the new system:

“Parliament would continue to lay down what the minimum rates of benefit would be. Individuals would choose which friendly society they joined so as to qualify for these minimum benefits. As customers, they would be free to move to another friendly society the friendly societies would be free to offer additional benefits. Indeed, they would find it crucial to do so. Other societies would try to poach members by offering additional top-up benefits. These would range from second pensions and additional sick pay and unemployment entitlement, through to extra help with the cost of community care.”

Criticizing his own party's worship of the *status quo* in these welfare issues, while simultaneously acknowledging the challenge of free markets, Field concludes his article by arguing:

“Labour claims its cardinal values are fellowship, co-operation and fraternity. These values did not spring out of thin air. Nor did they put down roots because of the endless rhetoric of politicians The trend of people demanding greater choice in public services is set to continue as living standards rise. Instead of acting negatively, the left should seize the initiative and develop its own radical scheme for the future of the welfare state. The big question in this new debate will be whether the welfare state is to retain community based values via a renaissance of self-run friendly societies, or whether the nostrums of the unregulated market will finally overwhelm it.”

Frank Field's views on these matters are of significant importance. Not only does he suggest that the present system, as a result of its inherent nature, inevitably fails to respond to the requirements of millions of individuals, but he hints at the notion that markets possess the capacity to efficiently and popularly respond to peoples needs. This is a truth which in welfare issues has all too readily eluded collectivists the world over.

This report builds on the commendable ideas of Frank Field, and places community-oriented, consumer-led solutions, back on the agenda. It begins by looking at the history of welfare insurance, the rise and fall of Friendly Societies, and the rise and necessary fall of state interventionism. It concludes by suggesting a new system based upon market principles which will provide a more responsive benefit environment for its customers, as well as relieving the cash call made upon central government at a time of adverse demographic trends. These trends, in the final analysis, will not simply affect the United Kingdom, but will have to have a major welfare re-structuring impact across Europe if competitiveness in world markets is to remain in the early part of the 21st Century.

2.BACK TO BASICS Workers and the Welfare Establishment

Politicians and commentators all too often rely upon a world view which divides life into black and white, them and us, left and right. While such demarcation might make life easy for the individuals involved, this kind of atmosphere, can often hamper the development and understanding of new and original policy ideas, which break given boundaries.

It is in this context that Frank Field's ideas must be understood, for he has demonstrated a clear ability to go back to basics and to draw from the past policy solutions which can be applied in a practical way to contemporary political problems.

The importance of Frank Field's work is not just that he is willing to openly discuss the problems inextricably linked with forms of state welfare provision, but that he is also willing to value other modes of organization. Like researchers across the political divide, such as David Green, of the Institute of Economic Affairs, Field advocates a reappraisal of what existed before the days of organized professional interest and massive state intervention. For Field:

“The starting point for the left needs to be the acceptance that, politically, welfare issues are fast becoming part of a new ball game. Consumers will willingly listen to right-wing schemes promising more consumer choice if that is all that is on offer. The fight back from the progressive left comes from examining the roots of the welfare state. Originally, working people built up friendly societies to cover not just the cost of burial, but of sickness and unemployment. It was important that these organizations were run by their memberships.”

The fact of the matter is that Field is a 'modern' politician attempting to live in the real world: not a world of some notional, utopian fantasy form. As such, he is no doubt treated with some reserve by many of his more conservative Socialist colleagues. Nevertheless, the fact remains that his article outlines a radical policy proposal, which could, through its use of non-state mechanisms, fit in with any forward-looking party manifesto.

Until recently it was David Green who, through his research, had pioneered and campaigned for a re-evaluation of preinterventionist forms of welfare provision.

Green points out that the Victorian age was by no means simply about 'bourgeois', laissezfaire values. Existing alongside them was a working-class alternative, which aimed to replace the hated and divisive Poor Law and, as such, provide individuals and communities with viable and popular forms of welfare. The desire of the Labour movement was that:

“Through the trade unions workers would win the wages necessary to sustain a decent existence, and through the friendly societies they would organize their own welfare services—social insurance,

medical care, even housing loans. The profit motive, too, was to be supplanted: in the factory by the mutuality of the workers' co-op; and in retailing by the coop store. Not all these working-class hopes were realized, but the friendly societies, the trade unions and the co-op stores were successful and offered a fraternal alternative to the sometimes co-op world of commercial calculation."

Before the state began to intervene in this area, or more accurately, before the state bestowed 'consultative status' upon a number of experts and interest groups, the friendly societies' social insurance and primary medical care schemes had attracted over three quarters of all manual workers. Prior to the 1911 National Insurance Act every neighborhood and every town was dotted with friendly society branches.

The friendly societies were so successful that their arrangements for social insurance and primary medical care were used as the basis, the model, for the early welfare state. However, as Green has demonstrated, this ironically was their undoing. Like Field, Green notes:

"The 1911 National Insurance Act was originally seen by Lloyd George, who charted it through Parliament, as a way of extending the benefits of friendly society membership, already freely chosen by the vast majority of workers, to all citizens, and particularly to those so poor they could not afford the modest weekly contributions. But on its way through the House of Commons the original Bill was radically transformed by powerful vested interests hostile to working-class mutual aid. The organized medical profession had long resented the dominance of the medical consumer, and particularly resented working class control of the medical 'gentlemen'. The medical profession were equally anxious to obtain more pay and, above all, higher status for doctors. Working-class fraternalism also had another archenemy; the commercial insurance companies. They had long disliked the competition of the non-profit friendly societies and saw the 1911 National Insurance Bill as a threat to their business."

Outlining the campaign by both the BMA and the commercial insurance companies, of which the latter had organized a powerful trade association called the 'Combine', Green points out:

"The BMA and the combine formed a temporary alliance to extract concessions from the government at the expense of the friendly societies. The essence of working-class social insurance was democratic self-organization; amendments to the Bill obtained by the BMA and the Combine undermined it. Doctors' pay had kept within limits that ordinary manual workers could afford: under pressure, the government doubled doctors' incomes and financed this transfer of wealth from insured workers to the medical profession by means of a regressive poll tax, flat-rate National Insurance contributions."

As is usually the case with such political interventionism in a market, the consequence was, for some at least, unintended. Green states:

“The unhappy outcome of legislation initially intended to extend to all citizens the benefits of friendly society membership, already freely chosen by the vast majority, was a victory for the political muscle of the Combine and the BMA. They achieved a very considerable transfer of wealth and power from the relatively poor working class to the professional class.”

The Reality of Pre-Collectivized Welfare Insurance

Against the views of Dickensian mythology and elitist welfare myths, the nineteenth century witnessed a rapidly growing, varied and highly successful industry aimed at elevating individuals out of hardship. Friendly societies and savings banks were the key elements in a broad industry aimed at providing all individuals with security.

According to Samuel Smiles the first savings bank was started by Miss Priscilla Wakefield in Tottenham in the 18th century, but the founder of the savings bank movement is generally acknowledged to be the Rev. Henry Duncan, a Scottish Presbyterian minister.

Regarding the specific issue of extreme poverty, the Rev. Henry Duncan's scheme stands as a good example of what was often achieved. Alec Parrott's research has clearly demonstrated the capacity of non-state organizations to materially liberate the poorest of communities. Citing the Rev Duncan's work for example, he states:

“The Rev. Henry Duncan's ...parish was the poor one of Ruthwell in Dumfriesshire... the average wage of the cottagers was 8s a week, but in four years the savings bank he started had accumulated funds of nearly £1000, proving that habits of thrift could flourish in the most unlikely places.”

Such institutions grew rapidly and by 1819 there were at least 465 separate savings banks in the British Isles: and in some instances they were beginning to emerge as serious rivals and competitors to the friendly societies. Indeed, in that year a Select Committee on the Poor Laws commended both savings banks and friendly societies as which would aid the provident habits of the people!

Throughout this period the friendly societies were themselves consistently evolving into a more cohesive force. By 1846 an act of parliament made John Tidd Pratt Registrar at the head of a Department known as the Registry of Friendly Societies, and when the Co-operative Movement was legally recognized in 1852, the Registry was given similar authority over the new Co-operative Societies.

Standing behind this movement, trade unions had, from the 1830s onwards, had social security provision as a primary goal. In 1833 the official magazine of the Builders' Union typically argued for instance:

“A union founded on the right and just principles is all that is now required to put poverty and the fear of it ever out of society.”

Continuing to grow at a spectacular rate this non-state movement's ideas and influence spread. For example, by October 1851 the Amalgamated Society of Engineers (ASE) oversaw 11,000 members each paying a week's subscription. In

return the members received sickness benefit, emigration benefit and strike pay. While a strike in 1852 led to the return of the men to work on the employers' terms, it had the effect of consolidating the ASE:

“What impressed the working men was not the trade policy which had brought about defeat of 1852, but the admirably thought out financial and administrative system, which enabled the Union to combine the functions of a trade protection society with those of a permanent insurance company, and thus attain a financial stability hitherto undreamt of.”

Again, it is important to note, that unions like the Journeymen Steam-Engine Makers Society had always provided its members with out-of-work pay, a traveling allowance for those seeking work, a funeral benefit and a lump sum in case of accidental disablement. Sick pay and an old age pension for superannuation members were added later. Commenting specifically on this influential organization, Parrot states:

“It was a single association with a common purse into which all contributions were paid and out of which all expenditure was defrayed, so it was possible to accumulate a substantial reserve, which was at the disposal of the central executive. When the ASE was formed, central funding had to be reconciled with local autonomy, and this was done by adopting the equalization fund system operated by friendly societies with branches. Each branch retained its own funds and administered the friendly society benefits, but the fund remained the property of the society as a whole. At the end of each year the balances were equalized so that each branch started the New Year with the same amount of capital per member. This system, by means of which the subscription of a shilling a week was adequate to provide a high level of friendly society benefits as well as allowing a substantial balance to accumulate for strike pay, infuriated many employers.”

Commenting on the overwhelming success of non-state welfare provision, the Chief Registrar, at the end of the 19th century wrote that:

“It remains as one of the great glories of the Victorian era that...welfare has been established in a very large degree by the labours and the sacrifices of working-men themselves, and by the wise and judicious legislation which has permitted and encouraged their endeavour in the direction of self-help.”

The success of this movement, now so often forgotten by its one time proponents, the trades unions, meant that a generally responsive, efficient and popular service was provided for ordinary people. As P.H.J. Gosden has asserted:

“By the beginning of the 20th century the total funds of the various provident institutions amounted to nearly £400,000,000 the most rapid rate of increase in funds in the last years of the 19th century being in the friendly societies and the retail cooperatives. During the period when this country came as near as it has ever done to a full acceptance and application of the doctrines associated with economic

individualism, the provident societies were the instruments of widespread material benefit to the 'industrious classes' “.

Criticizing then the inefficiency, bureaucracy and unpopularity of the state, P. Mackay, in a book published in 1889 and entitled *The English Poor*, argued:

“The Post Office, like all Government departments, is not a very enterprising institution. Its banking business is distinctly an excrescence. Its customers have to wait patiently in queue till the officials are ready to attend to them, and none but the most determined depositors can face the difficulties of the situation. To be really successful the working class banker ought to be something of a canvasser and collector of deposits, he ought to have his representatives conveniently stationed to receive payments on the wage day. The great success of institutions like the Prudential Insurance Company comes from the skillful way in which they adapt themselves to the needs and humours of their customers. A working man requires his opportunities for saving to be brought to his door, for the excellent reason that he is often overworked and has little leisure. The collecting insurance companies know what their customers want, and this is the secret of their success.”

Today, few workers need convincing about the inherent inefficiency and bureaucracy in state welfare and particularly the treatment of those receiving unemployment benefit.

Professionalism Against the Interest of Workers

As the increasing success of non-state forms of welfare provision were accepted by a number of disparate groups including private bankers and trade unionists the question arises as to why it was that such a broad based movement was abandoned?

The answer to this question is as simple as it is unexpected given the popular perceptions of so many of today's welfare observers. As is usually the case in such matters, the rise of professional monopoly, and hence state power in this area was not the product of some benevolent altruist claim — as is often argued by academics steeped in sociological jargon — but instead, as Green has demonstrated, it was the result of a number of individuals who wished to subvert the system.

Instead of having to compete and provide the services that individuals really wanted, and at a price they could afford, some groups found it more advantageous to use the state and legislative route, using the notions of “justice and professionalism”, to bring about what was in effect a monopoly which gave them power.

As such, the rise of state provision and the demise of the friendly societies was, as a process, the unfortunate product of self-interest being aligned with anti-competitive and anti-cooperative methods.

In short, professionalism was the process by which a number of providers of some social services sought to constitute and control a market. Professionalism is associated with the growth of state provision. Just as industry was increasingly

regulated to curtail competition so some producers of social services campaigned to be turned into professionals.

This ideology has its roots in the sociological thinking of the turn of the century, which argued for the necessity of establishing new moral communities based on occupational membership to replace a traditional moral order which had allegedly broken down in the industrial revolution. In saying that Civil Servants, Social Workers, the DNA and the Combine all put the common good before self-interest, each professional group was in effect saying that the principles of the market and of mutual co-operation, were inferior. Not only did the trade union movement disagree with this view; it is disputed by history.

The State and the 1911 Act

By the time of Lloyd George's 1911 Act it was generally agreed, that working men had proved that they were fit for self-government and that they needed no paternalistic state to care for them:

“Working men have now passed out of the nursery, and have been taught by personal experience the pleasures of walking upright and unaided, and are not likely to seek the assistance of the state in those matters which, from experience, they know they are capable of managing themselves.”

We do not wish to be understood as throwing cold water upon any scheme intended to teach Britons the blessings of thrift, our objection is to the working-class being singled out as the class which requires nursing from cradle to grave; experience shows that our artisans are as capable of learning lessons from the teachings of the past as any other class, and their history of the past thirty years, as written in their own organizations, proves indisputably that they are competent, and will ultimately 'work out their own redemption'.

While most people have today forgotten the fact that so many manual workers were hostile to the paternalistic state, the question remains: Were the working class leaders of the early twentieth century misguided?

The evidence, ignored by influential academics such as professor Richard Titmuss, suggests not. As David Green has pointed out:

“between nine and nine and a half million of twelve million persons eventually covered by the 1911 Act were already in insurance schemes. In 1910, the last full year before the 1911 Act, there were 6.6 million members of registered friendly societies, quite apart from those in unregistered societies. The rate of growth of the friendly societies over the preceding thirty years or so had been rapid and was accelerating. In 1877 registered membership had been 2.8 million. Ten years later it was 3.6 million, increasing at an average of 90,000 a year. In 1897 membership had reached 4.8 million, having increased on average by 120,000 a year. And by 1910 the figure had reached 6.6 million, having increased at an average annual rate since 1897 of 140,000!”

If anything, the evidence suggests that non-state social security provision was successful and growing rapidly.

The state began to intervene in this domain not because of market failure, but instead at the behest vested interests residing largely in the 'professional' upper-middle classes. As was mentioned earlier, the BMA and the Combine were successful in bending the government's ear and legitimating their struggle for a privileged position in the name of justice and the public interest.

Under the influence of the Combine the 1911 Act covered all those workers between the ages of 16 and 70 years who were in industries, known to be subject to severe and recurrent unemployment. Being compulsory, covering about 2.25 million workers and financed by a triple weekly levy (from the workman, the employer, and the government) this Act undermined the Friendly Societies because it compulsorily removed a large number of their consumers. Whereas this left the private insurance companies with their wealthier customers it undermined the Friendly Societies.

Once the state began to intervene in workers lives it was difficult to stop. The 1930 Unemployment insurance Act abolished the requirement that the unemployed receiving benefits should be 'genuinely seeking work' as well as increasing the benefits. This opened the scheme up to abuse.

The 1946 National Insurance Act simply extended a logic which was being built into the system thirty years before. As such it progressively grew, excluding and restricting the possibilities for individual choice and innovation. Moreover, away from the responsive Friendly Societies, Co-operatives and Private Insurance companies, the failings of the state system have become increasingly apparent. The early fears of monopoly supply, state bureaucracy and poor targeting have all been vindicated, leading to public disenchantment with the state system.

The fact of the matter is that the state system, as a result of its internal logic, cannot be as responsive and as sophisticated as the market. The state's requirement for the imposition of a uniformity of rules implicitly precludes diversification and individually tailored insurance schemes.

If the state did account for individual needs it would by definition not be working according to the principles of egalitarianism. A system that is based upon individuals' requirements would be criticized by state welfare proponents for not treating its clients in an equal (i.e. uniform) manner. Hence, the state benefits system relies upon a methodology, which works against individuals. When its advocates claim that it aids individuals they only do so by glossing over its inherent contradictions.

3.THE FAILURE OF STATE INSURANCE

The fact of the matter is, as authors like Frank Field and David Green have suggested, that many of the problems associated with state welfare insurance require a major re-appraisal. Indeed, for researchers like David Green, the state intervened in such areas just at the time when market and co-operative structures were providing sound solutions.

The problems associated with modern state insurance and welfare benefits, particularly state unemployment benefit, and are well known. As such, it is not surprising that Frank Field spoke in his article in the following terms:

“By resurrecting the role of friendly societies as providers of benefits in the welfare state. Labour could ensure that voters had a real choice on welfare issues at the next election.”

The most important thing about this statement is that Field espouses the value and necessity of providing individuals with real choice on welfare issues. For implicit within this statement is the understanding of the inherent failings of the present state welfare benefits system.

Poor Service

The present system — particularly with regards to unemployment benefit — is famed for its poor and inadequate service to claimants. It is common knowledge that benefits are often difficult to obtain; individuals frequently complain that the system is unresponsive and bureaucratic, that the state suppliers of benefits are remote and unaware as to real needs.

Indeed, excessive queuing, paperwork and delay are the usual failings attributed to the system by those who use it.

Poor Targeting

The welfare system generally is notorious for not adequately providing for those who genuinely need help. The state squanders scarce resources on those who need no help and can have no honest claim to it. It helps prosperous working-class and middle-class people and encourages them to believe that they can make demands on resources, which should be targeted at the poorest and most deprived individuals. These are individuals with a serious and genuine need for help, which they cannot provide for themselves.

The real deprivation of the poorest is the distorted mirror image of the poverty lobby's gross exaggeration of the extent of poverty. The misery of the unavoidably homeless is a product of the diversion of housing benefits to those who already have the benefit of a house. The gross inadequacies of health care for the aged poor and the mentally handicapped and ill are the inevitable consequences of the entrenched resistance of the prosperous majority to paying their own health bills.

While one could go on, the important point here is that so long as Britain persists in treating welfare provision as a universal right, and hence strains to achieve global coverage, so long will those who most need help be robbed of it.

Dependency

The basic aim of social security provision should be to help people in temporary need who cannot get help from their own, or their family's, resources, to restore themselves as rapidly as possible to self reliance.

As many trade unionists argued at the beginning of this century, individuals should be encouraged towards non-state provision where possible. They understood the merits in a socio-economic framework, which enabled individuals to avoid the perils of dependency culture.

Without recourse to a poverty inducing dependency culture, the Swiss handle these issues in a totally different way. Where possible they replace grants by loans and require self-restorative efforts in return. Again, in tune with the traditional aspirations of some British working class leaders, the Swiss personalize and localize help rather than leave it with the anonymous bureaucratic state, which is unable to discriminate. They separate social assistance from social insurance, rely more on voluntary organizations, and train social workers away from blindly accepting the ideology of dependency with its attendant emphasis on the creation of 'rights'.

Identification of the Problem

In his 1942 report, Sir William Beveridge proposed an insurance scheme in which payments would be high enough to meet current demands and to finance the establishment of a fund out of which future benefits would be paid. In the event, this concept has, alas, been rejected and the principle adopted has been one of financing current benefits out of a combination of current contributions and general taxation.

The growth of benefits has not, therefore, been constrained, as it should have been by the money available to pay them. Instead, new benefits have been added, more or less on demand, leading to an ever-increasing burden of taxation.

There are, however, areas where steps can be taken towards creating a properly funded basis for future benefits. The proposal to allow people to opt out of the State Earnings Related Pension scheme in favour of private provision has been a welcome move in that direction. Other areas which could be treated similarly include industrial accidents, disability and sickness, and of course unemployment benefit.

In point of fact private provision to top up a basic state scheme is precisely what Beveridge advocated in his guiding principles for the establishment of the welfare state:

“The third principle is that social security must be achieved by co-operation between the state and the individual. The state should offer security for service and contribution. The state in organizing security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and

encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.”

There is a clear case, therefore, fully in accord with the principles upon which the welfare state is based, for a far more radical examination of the multiplicity of benefits that are currently provided and the extent to which they could be provided equally well, if not better, by individuals acting privately.

The prime reason why it is vital to move the social security system as far as possible towards a self-insured structure is that it is based on a fundamental mistake, which is unsustainable. This mistake is the principle of the chain letter.

The principle was first introduced in pensions by Lloyd George who advertised it as giving the public 'nine pence for four pence'. However, those who know anything at all about the price of eggs know that one cannot give nine pence for four pence unless involved in some kind of fraud.

In this case the fraud is a familiar one to those who watch the activities of politicians the chain letter fraud of giving people benefits today in the knowledge that it will be some future group of politicians and taxpayers who will have to worry about sustaining the structure and paying the costs. Thus, for example, people are asked to pay high taxes today for a national 'insurance' system that will provide for them in their old age, should they be disabled, and so on. But in fact it is not for themselves that they are paying premiums today's contributions go straight to today's beneficiaries, without even the pretense that a national insurance fund is being built up to provide for future needs. That will depend on the ability to make future generations continue to cooperate with the same chain letter.

It is this key principle upon which benefits are currently sustained that is both immoral and damaging. It is patently immoral for politicians to enter into a fraud, which, if done by anyone else would be totally illegal. It also blatantly undermines the tendency for people to become self-sufficient and to provide for their own circumstances.

Because the contemporary welfare system is a political invention and a political football, it is politically active pressure groups that make sure that it is directed towards their own benefit. As a result of this the articulate middle classes in particular do well out of the system.

The current system is antithetical to the operation of a modern society and today's needs. Because the system is based upon a monopolized uniformity of rules there is little choice; there is no competition. Given what has been learned from the age of central planning, the lessons of technological breakthroughs now making things possible which were not possible before, the structure and mechanics of the system have to be changed.

4. WHAT IS TO BE DONE?

The SERPS changes have shown what can be done. A somewhat modest opting out arrangement has led to a massive exodus as people have come to realize that they are better off outside of such a restrictive and vulnerable system. In the resulting climate of newfound freedom and choice it is not surprising that Frank Field has recently examined the possibilities of a similar optout scheme for unemployment benefits. He asserts:

“In one sense, the idea does not sound as far-fetched as it did five years ago. The government has embarked on a similar policy for the State Earnings-Related Pension Scheme (Serps). Subsidies totaling nearly £5 billion will be paid to those leaving Serps for the private market. In the past, the left has made few counter-attacks against ideas emanating from the Tory think tanks. In this political vacuum, the right has found it easy to convince the prime minister that there will be little opposition to its strategy. And so it has proved.”

Field understands more than most the popular potential such practical policy proposals hold for politicians. However, such a transition has at its center the problem of moving people out of the chain letter, and into a self-insured and competitive, system.

The problem of moving to an insured, or fund-financed basis for unemployment benefits is that it is hard to surface from the pay-as-you-go mechanism. The difficulty is that somehow a fund has to be built up out of which future benefits will be provided instead of passing the buck to future taxpayers.

To be successful the process must be gradually introduced. Initially only some people might be allowed to opt out of the current state mechanism. The basic problem is that if everyone were given the opportunity to opt out of state unemployment assurance, and given some reduction in taxation or National Insurance Contribution as an incentive, those first choosing to do so might be those making high contributions and with low likelihood of ever making claims on the system. The Treasury would not appreciate any adverse selection, which left it with large numbers of potential claimants, and few contributors.

This problem could be overcome by regulating the rate at which people were allowed to opt out of the state system, and by calibrating any incentive so as to control the numbers taking advantage of their freedom to opt out.

The rate of departure from SERPS was not a sudden mass exodus, but a gradual exit as more and more each year became aware of the advantages of leaving the state scheme to seek their own provision in the private sector.

The Politics of Realism

There can be no doubt that unemployment benefit certainly could be financed by an insurance arrangement — there is no theoretical problem.

Hayek has argued that firms or employers should be paying the premiums on this; his case is that because the risks are higher in outmoded industries, there would be a more rapid turnover from old to new industries in the economy.

The insurance companies will claim that the one major problem about unemployment provision is the problem of inflation; if they are agreeing to take people on as an unemployment insurance risk, then large doses of inflation coming from the government could mean that any fund quickly loses its value. This would make it extremely risky and unattractive for the insurance companies, or costly for the beneficiaries, to ensure that they were properly covered. Certainly, provision against possible inflation would have to be built into the system.

One way might be to permit the insurance firms involved to invest large parts of the funds in overseas investments, enabling them to pick and choose low inflation economies, perhaps including our own.

Potential private insurers against unemployment, whether they be profit-making insurance companies or the friendly societies, would want to guard themselves against sudden and unanticipated increases in rates of unemployment, increases which might be brought about either by government policy or by adverse factors arising on world markets. In practice, one possible way of dealing with the problem might be with policies, which did not cover the first few weeks of unemployment. The basis might be that most people are able to tide themselves over short periods of transition between jobs, and that re-employment might be speedier in the absence of short-term cover.

Other ways might involve the traditional practice of reinsurance by the primary insurers to broaden the spread of risk. Perhaps there might be cut-off dates, as there are with certain types of health insurance. The industry itself could be expected to draw on its experience in other areas to develop solutions to the basic problems, which are fundamental to many areas of insurance.

Even with these caveats, there remains a need for major reform of the system; as Frank Field has rightly stated many individuals would do far better in a system removed from direct and overt state control.

There is no reason why non-state unemployment insurance could not be offered by a variety of competing institutions, which differed in their modes of operation. For example, the Co-operative Bank should be free to provide its customers with unemployment insurance alongside its other banking services.

Field is right when he says that in such a free environment where the government simply sets basic codes of conduct and minimum benefit levels — individuals are likely to do very much better for themselves than the state could ever do. Through choice and market competition, commercial and co-operative institutions would strive to attract and provide their customers with benefits that responded to individual needs. This is what the private pension providers did when people were allowed to opt out of SERPS, the state scheme.

Such a system would indeed emerge to be as popular as the Friendly Societies were, and which not long ago the trades unions so vehemently supported. It would be a system in which the competing institutions constantly had to monitor administration, their service and benefit levels a situation, which is simply not possible within the confines of the current state monopoly structure.

Friendly Benefits

To rediscover the 'friendly days' with all their benefits, not only should the state encourage (as in the case of SERPS) a transition to an opt-out system for unemployment benefit, but the power and scope of Friendly Societies should be greatly expanded and enhanced.

While the basic values on which friendly societies are based may appear to many to be out of step with today's highly competitive financial services market, mutuality and competition can go hand in hand. Because they demonstrate a special regard for the principles of thrift, self-help, and, indeed, have a responsibility to care for their members by going beyond contractual provisions, these institutions are well placed to make a valuable contribution to society at large.

However, to do this successfully, they need to be able to offer wider range of services if they are to compete. At present Friendly Societies are in decline because of the highly restrictive Friendly Societies Act 1974, which, as the government has recently asserted, seems "somewhat anachronistic in the modern world."

At present, a society can only properly extend its activities beyond the 1974 Act's narrow prescriptions by converting into an insurance company. While the 1974 Act provides for conversion of a friendly society into either a proprietary or mutual company, such conversion requires a radical change in the nature, aims and objectives of the organization.

There is no way friendly societies can compete in the market as the law now stands. For example, many smaller friendly societies reinsure part or all of their risks. At present they can only do this with an insurance company, they are not allowed to reinsure the risks with a larger society.

In addition to the positive proposals made in the recent Treasury Green paper 'Friendly Societies: A New Framework', such changes to enable the friendly societies to compete in a freer environment should make full use of their capacity to offer a unique unemployment benefit system.

As a result of the conjunction of their tradition of flexible benevolence, and their clear ability to attract customers when allowed to operate in a free market, these institutions would be ideal to provide unemployment benefit.

By allowing institutions based upon the principles of mutuality and competition to provide unemployment benefit insurance, within a generally more liberalized environment, many individuals will do very much better for themselves than they do by being forced to remain within the state system.

The friendly societies would be well placed to offer a more localized and genuinely friendly service to those deterred by the impersonal world of big corporations and remote head offices. They would be in close contact with their member-customers, and be in a good position to offer sympathetic and flexible schemes to suit the actual needs expressed by their members.

Contracting out the Administration

In addition to these institutions being able to provide such a service, no doubt often as part of a broader insurance package, the government would do well to empower financial institutions to administer the remaining state unemployment benefit scheme for those people who do not opt out. The administration of it should be put out to tender by contracts on a regional basis every four or five years. Competition and efficiency will lead to a better deal for the taxpayer as well as for the individual recipients of unemployment benefit. On the Audit Commission figures, the average saving yielded when a private contractor is brought in to perform a state operation is 22%.

Not only are private institutions — in general — better placed to administer this benefit, they have many more offices than the state, but the technology they employ will be of major benefit too.

The Need for New Technology

There is a popular commonly-held view that social security payments, and in particular unemployment benefit, should not be sufficiently easy and comfortable to obtain that people decide to choose this as a way of life. Influenced by this view all governments to date appear to work by the principle of rationing by squalor: that social security should be sufficiently difficult, degrading and inconvenient, so as to limit the numbers that will have access to it, or that choose to have access to it.

As a direct result of this view, prospective claimants frequently face the prospect of weekly humiliation: the searching, the probing into details of private life, the prospect of long weekly queues, the hours of waiting, are all part of the state's course.

To change this situation and alleviate the inevitable distress caused, new avenues must be examined. Social Security is characterized by a curiously out of date structure. The notion that people should be forced to receive coupons and form long queues each week, in order to receive payments in cash put into envelopes seems patently outmoded in an age when modern technology is perfectly capable of making transfers directly into bank accounts. Although the argument is sometimes put that many of the recipients of unemployment benefit do not have a bank account, this does not mean that the government, or a private body, could not open one in their name.

Indeed, payments by — both private and state sectors — could be made via 'smart' cards. In the modern age it seems strange that people should queue up inside Post Offices when experience has already demonstrated that individuals prefer to use a machine in the wall, even when the bank counters are empty. The anonymity of this system and the convenience of being able to do it in their own time are very popular.

As well as cutting needless bureaucracy this system would be easy to install. There already are thousands of automated teller machines in walls all over the country. People can be simply given a 'smart' card that will draw money out of the bank or building society of their choice. As the machine is already there all the government needs to do is pay money to the supplier.

The new 'smart' cards would allow adjustment for the individual and for changes to be made from the centre without even needing a new card. The coding on the card can be used to trigger off the correct response from the machine to determine the size of the weekly payment. Although some experts argue, that a significant proportion of the population are incapable of managing their resources for more than a day, it is entirely within the realm of the technology available to provide them with a card which they could use to get cash on a daily basis.

5. CONCLUSION

This report builds on the idea of Frank Field. It makes the case that market systems and alternatives to state monopoly should not be regarded in simple terms of left versus right, us versus them.

As such, Field's advocacy of a new non-state unemployment system based upon the principles of the old Friendly Societies, should be recognized as a highly innovative and potentially popular solution to an overly complex, costly and inadequate state monopoly system.

An examination of the history of the benefit system prior to the 1911 National Insurance Act shows its capacity to grow rapidly and provide consumers with a variety of popular choices.

The question as to why this non-state system, which by 1911 covered over nine million people, was gradually nationalized makes sense in the light of David Green's research. The BMA and the private insurance companies lobbied the government so as to gain an unfair advantage over the friendly societies. In typical mercantilist fashion a cartel was created by state intervention to preclude competition. In this case, as in many others, nationalization has to be understood to derive from a desire by some interest groups to buck the market, not from market failure as is sometimes argued.

As a result of the state's inability to provide workers with a broad range of unemployment insurance schemes that are well targeted, efficiently administered and popular, this report suggests an opt-out scheme similar to the SERPS revolution engendered by granting choices and empowering competition. The point has been made that as the law currently stands, friendly societies, with their unique attributes, are unable to compete successfully in the financial services market. Although the Treasury and in particular the Chancellor are aware of these restrictions, and propose to liberalize the system, this report urges that such changes should be coupled with a radical overhaul of the unemployment benefit system in general.

Not only should all financial institutions be free to compete for consumers who choose to opt out of the state's unemployment insurance system, but also the administration of state unemployment benefit should itself be done — on a contract basis — by private financial institutions. Not only will this save money and provide the recipients with a better, more convenient deal, these firms are ideally placed to use new technology.

The Demographic Dimension

In conclusion, such changes are not favoured simply because they can provide workers with a better deal, or because they can save the state and thus the taxpayer hundreds of millions of pounds a year. Although these are worthy reasons in themselves, changes to the state benefit system are also justified by forthcoming demographic factors and long-term economic reasons.

The population is aging as medical advances prolong not only life itself, but also active life. People are living longer and claiming pension rights over a longer period. This affects the calculations on which pensions are based. People are sometimes choosing to delay retirement, or to continue working part time. Women choose to work during part of their lives, and perhaps to remain home with children at other times. The sharp divide between being in work and out of work has blurred into a range of options and transitional states.

Given the demographic shifts now apparent across Europe, the future calls which will be made upon government finances increasingly mean that new innovative policy proposals are required.

In this environment the *status quo* has to give way to change. Resources must be better targeted to those in real need, to individuals who genuinely cannot provide for themselves. The proposal to allow individuals to opt out of the state service and to seek their own coverage for unemployment insurance is not only a desirable reform. The demographic environment alone makes such changes the product of necessity.