

# Contributory welfare

Graeme Cooke

Could the concept of contributions-based welfare help re-galvanise support for the system?

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Since the last election one of the explanations offered for Labour's defeat has been that the party lost touch with the public on welfare. This case is often made from a variety of perspectives, but one idea that has emerged strongly in response is that welfare should become more 'contributory'.<sup>1</sup> The starting point of this essay is that while this insight has the potential to open up fruitful policy and political territory for Labour, it is not yet doing so. This is because debate in this territory has so far largely been conducted at an abstract level, with a number of quite distinct conceptions of 'contributory welfare' being advocated without their differences being acknowledged. There has also been too little engagement with what these conceptions might mean in practice, and little discussion on whether or not they can be integrated with each other. This, in turn, inhibits the development of a radical yet plausible policy agenda in this area - or one that could be attached to a clear political strategy.

To help make progress, this article addresses three main issues. First, it sets out the various arguments being advanced in favour of re-asserting the contributory principle in the welfare system. Second, it separates out the different conceptions of 'contributory welfare' currently being advocated. And third, it explores where these conceptions might lead if they were pushed through into policy and practice. Finally, it briefly considers how the different principles and options in play could link to a wider welfare strategy. The aim here is not to advocate any single concept or policy in detail, but to bring some clarity and specifics to the discussion.

Before turning to these issues, it is important to note the context in which any welfare strategy over the next decade will have to operate. This includes, most

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obviously, the reality of substantial constraints on the public finances, the danger of an extended period of high unemployment, and the implications of the current government's programme of welfare reform (including efforts to control rises in social security expenditure). Also, given how often the legacy of Beveridge is invoked in this debate, it is worth remembering the significant shifts in society since his historic 1944 report. These include: massive industrial upheaval; structurally higher unemployment (plus the emergence of male inactivity); a far greater proportion of women in work; increasing numbers of single-person families; large rises in longevity; and many more disabled people living long into adulthood. These create a very different context for thinking about a welfare system appropriate to the times.

### **Arguments in support of contributory welfare**

Debate about the role of contribution within the welfare system is not new; its roots can be traced back to Lloyd George at the start of the twentieth century. However, the idea became increasingly unfashionable in mainstream social policy circles over the last thirty years.<sup>2</sup> Proponents of universal benefits saw it as being divisive and partial, and as leaving out those who had not contributed (or were not able to do so). Advocates of means testing viewed it as ineffective and inefficient, in that it did not necessarily focus on those in the most need. Partly drawing on such critiques, a series of policy changes significantly undermined the role of the contributory principle from the 1970s.<sup>3</sup> One example of this is the erosion of any meaningful difference between contributory and means-tested entitlements in the out of work benefits system. But there are many others.

However, since the 2008 financial crisis and then the 2010 general election, claims about the value of the contributory principle have resurfaced. A low level debate within the social policy community has burst back into the political mainstream. This shift is interesting in itself, but understanding the drivers of the revival is important in working out whether (and in what ways) such arguments might have purchase on current political and policy thinking. In that spirit, it is possible to identify three types of claims in favour of the contributory principle that have been made in recent debates.

*It could provide better protection from economic risks.* Since the onset of the Great Recession, issues of economic security have increased in salience, having been

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confined to a minority during the previous fifteen years. This has broken the illusion that capitalism's tendency to expose people to insecurity could be tamed. It has also revealed that the welfare state offers minimal - and for most people marginal - protection at moments when disaster strikes. Re-asserting the contributory principle, it is argued, could help to recognise that a protective welfare state is the essential bedfellow of a dynamic capitalist economy - while responding to the real economic insecurity affecting many people on low to middle incomes. A stronger contributory principle would not necessarily achieve these outcomes on its own, but could play an important role.

*It would embody the value of reciprocity.* The Great Recession also exposed the long-term drift away from a welfare system that offered support at times of need in return for prior contributions into the system. People who had been employed for a long time but lost their job found they were entitled to the same amount of (low level) financial assistance as someone who had never worked. And after six months, if they had alternative means, even less. A re-asserted contributory principle would, it is argued, mean that what people get out of the welfare system is more closely linked to what they put in. This would recognise the importance of reciprocity. A greater focus on reciprocity is also seen as going beyond a simple accounting rule, to express a concern about active relationships of 'give and take' and a rejection of dependence and paternalism.

*It would rebuild popular support for welfare.* A third argument made for re-asserting the contributory principle is largely an extension of the previous two. Opinion polling regularly points to very low public support for 'spending on benefits' and antipathy towards benefit claimants. However, rather than reflecting a general rejection of 'welfare', this could, so the argument goes, signify hostility to the dominant principles and organisation of the system. By chiming with a broadly shared common sense, a welfare strategy which places a greater emphasis on offering protection for ordinary people from economic storms and linking what people 'get out' more closely to what they 'put in' could, it is claimed, unlock new popular support for the welfare state (while addressing popular concerns).

Each of these arguments has strategic political force. The first is about protecting people better from the inherent insecurity of capitalism. The second is about recognising the value of mutual obligations and active relationships among citizens. The third is about building popular support for a strong welfare

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state (rather than always playing on the defensive). All three are linked, but each can stand independently of the others. Of course there are also strong arguments against re-asserting the contributory principle: some rooted in principle, others in practice. These tend to revolve around concerns that it is either too exclusive or too expensive. However, the main aim here is to clarify what it might mean to say that the contributory principle *should* be reasserted, so these arguments are not rehearsed here (though, in practice, they must be taken seriously into account).

## Different conceptions of contributory welfare

The reason for separating out these arguments is that it begins to highlight how a number of conceptions of ‘contributory welfare’ are being advanced under this banner. Drawing out these different strands is vital if a proper debate is to take place on political strategy and policy options - and on the appropriate role for contributory dimensions relative to other important principles and within a wider welfare agenda. Broadly speaking, it is possible to point to three distinct conceptions of ‘contributory welfare’ currently being discussed (though they are not necessarily mutually exclusive).

*Social insurance:* This is the idea that access to financial support *from* the welfare system should be based, at least to some extent, on financial contribution *into* the welfare system. This is the classic ‘Beveridge’ social insurance model, operationalised through the National Insurance system, but in long-term decline. Arguments in favour of this approach to reviving ‘contributory welfare’ relate both to *who* should get access to cash support and *how much* they should receive (relative to those who have not contributed into the system). There is also discussion about which risks should be covered by social insurance, and the technical rules that should govern contributions and entitlements. Clearly it is possible to advance this approach both through providing *more* to those who have contributed and *less* to those who haven’t - embodying quite different political goals and perspectives.

*Conditional entitlement:* This is the idea that access to cash benefits should rest on meeting certain conditions, typically job-search or work-related activity. In this guise, ‘contributions’ relate to people’s current behaviour, to what is required if they are to continue receiving support. In many ways the focus of welfare policy over the last few decades has shifted from entitlements guided by prior cash contributions to

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benefits determined by current behavioural conditions. Arguments in favour of this approach tend to seek to increase the nature or intensity of the conditions placed on those in receipt of benefits, or to widen their scope. This is sometimes combined with varying or relaxing such conditions for those who have made contributions.<sup>4</sup>

*Relational practice*: this idea is quite distinct from the previous two concepts, relating to the *process* or *practice* of welfare rather than to cash benefits. Drawing on a concern with reciprocity, this perspective is critical of the transactional and individualised nature of the way the welfare state actually works. It views the system as promoting paternalism and bureaucracy, and fostering dependence and isolation. A narrow focus on the transfer of cash from the state to the individual does nothing, it is claimed, to recognise the value of human relationships (or get to the root causes of the challenges people face). Arguments in favour of this approach are concerned primarily about practical acts of reciprocity in mutual relationships - rather than financial contributions to a social insurance system.

These brief characterisations of different conceptions of ‘contributory welfare’ are necessarily stylised, and gloss over areas of common concern as well as internal disputes.<sup>5</sup> However, they highlight real differences about the central critique of today’s welfare state and the primary objective in re-asserting the role of contribution. The aim here is not to suggest that any particular concept is ‘right’, or that a strict choice has to be made between them. But if the current debate about contributory welfare is to move beyond rhetoric and abstraction, and to offer insights into a new political orientation, policy agenda and governing statecraft, these differences have to be recognised for choices to be made and tensions confronted.

### Contributory welfare in practice

To help clarify the possible ideas and options, it is necessary to consider the political implications of the three conceptions of ‘contributory welfare’ outlined above. This is illustrated by outlining what a broad strategic direction for each approach could be, along with emblematic policy examples. No doubt much further work is needed to develop these ideas more fully. It is important to note that none of these approaches constitute a comprehensive welfare strategy. Each could - and certainly should - be combined with other policies, including those embodying other important

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principles, such as meeting need.

*A new National Insurance:* Drawing on the ‘social insurance’ concept, the welfare state could be reconfigured to provide real protection to people who have worked against a small number of core economic risks. Covering the loss of a job and the birth of a child, for instance, these would be clear benefits capable of making a real difference to those on low to middle incomes. More generous cash payments at these moments could take the form of additional elements within existing benefits, such as Jobseeker’s Allowance and Maternity/Paternity Pay. Alternatively, the distinction between ‘national insurance’ and ‘national assistance’ systems could be revived (with a clear difference between those receiving support in lieu of prior contributions and those with no other means of supporting themselves). Either way, there would be good grounds for making such ‘insurance payments’ temporary, and they could also be conditional (especially for those facing a spell of unemployment).

One way of funding such higher payments would be to redirect money from elsewhere in the welfare budget. However, there are strong arguments for not redistributing away from those on the lowest incomes. Alternative options would be: (a) to introduce a system of income-contingent loans, charged at a low rate of interest, to provide generous support at times of need but without imposing significant extra costs on the state;<sup>6</sup> (b) to cut universal pensioner benefits, such as the Winter Fuel Allowance and free TV licences; (c) to recast existing payments, such as boosting maternity/paternity pay by front-loading Child Benefit; or (d) to revive a system of additional voluntary contributions to secure access to greater support.

This approach would be enhanced by ensuring that the new ‘single tier’ state pension is paid at a higher rate than Pension Credit, to provide better protection from economic insecurity for people who have contributed into the system. Losing a job, having a child, retiring: these would be the big, clear protections from the welfare state for those on low to middle incomes. There is, of course, an alternative approach to strengthening the ‘social insurance’ concept. This would be to *reduce* access to benefits, or their generosity, among those who have *not* made sufficient contributions.

*Higher demands, greater support:* The ‘conditional entitlement’ concept has been dominant in welfare policy making over the last two decades, though conditions on the receipt of unemployment benefit are nothing new (dating back to the introduction of labour exchanges in the early twentieth century). As a result of

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existing policy, virtually everyone on out of work benefits will soon be required to do something in return for the support they receive. This means there is probably a limit to how much further this approach can be pushed in its traditional form. More intensive job search, such as weekly signing on, would be one option, albeit as an administrative tweak. The 'conditional entitlement' insight could, though, be applied in new ways, linking greater support with higher demands. This could apply to employment opportunities, but also wider engagement with people and families.

The central idea would be that the welfare state should do more to make the prospect of work real for people who struggle to access it - matched by stronger obligations on them to take up such opportunities. This could take the form of a job guarantee for those at risk of long-term unemployment, which has already been widely debated. But the principle could also be extended further. For example, the highly successful Access to Work scheme, which funds workplace adaptations, could become a guarantee. Or Work Choice, the more intensive back to work programme, could be turned into a far broader approach to creating the conditions for disabled people to thrive in mainstream employment.

A strategy along these lines might take the form of government meeting part of the costs of employing a disabled person, such as through a National Insurance rebate, to encourage firms to take them on (and as an alternative to funding benefits for them if they were not working). Such deeper commitments to enabling employment could be matched by stronger obligations on disabled people themselves. A similar approach could also be extended to families. One option would be to make access to additional affordable childcare, beyond the current free entitlement, conditional on parents working (or looking for work). Another would be to adopt the 'conditional cash transfer' model, pioneered in Latin America, to encourage parents to engage with certain services, such as health care and early education.

*Relational welfare:* Taking the 'relational practice' concept seriously would involve the largest departure from the traditional focus of welfare policy. Rather than reforming *who* gets access to *what*, it would mean reforming the *way* the welfare system operates. The central concerns would be whether welfare treats people as human beings rather than as units or commodities, and how effectively it fosters meaningful relationships that overcome bureaucratic dependence and social isolation. This perspective is committed to responsibility, so supports mutual obligations and opposes passive universalism. However its commitment to

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reciprocity is far more about relational practice than administrative rules.

Thinking about how this approach might be put into practice is much less advanced than in the other areas. Operationalising it is not straightforward, given how centralised and process-driven the welfare system is. However there are avenues to explore. There could be greater discretion at the frontline, enabling claimants and advisers to build relationships rather than simply tick boxes. This is partly the rationale for the 'black box' model of contracting used in the Work Programme, where providers can respond to the individual rather than simply administering an identikit 'dose of treatment'. That said, there are challenges of time, funding, training and accountability in extending discretion more comprehensively.<sup>7</sup>

Beyond this, a number of other options could be pursued. Conditionality requirements could place more focus on relational activity, rather than simply demonstrating job applications or turning up to courses. Work experience is one obvious example of this, but meeting with and supporting other claimants to look for work (and help each other out) would be another. Another option would be for Work Programme 'graduates', who had successfully moved into employment, to mentor those still looking for work. The key point would be to identify opportunities for people to build relationships with other people, rather than simply have an unmediated transaction with a state or private bureaucracy. This would hopefully help to improve employability, but would also begin to overcome the isolation of a life on benefits.

Speculating on these broad directions and emblematic policies aims to show how the notion of re-asserting the contributory principle can inform quite distinct approaches to renewing welfare strategy. They all, in different ways, respond to the various political arguments made for 'contributory welfare', articulated earlier. They each aim to provide better protection from risks and strengthen the value of reciprocity, though they conceive these objectives in different ways. Similarly they all seek to enhance popular support for the welfare state, though such claims are clearly not uncontested.

## **Contributory welfare and the wider policy strategy**

The final issue to confront is the place of 'contributory welfare' within a wider policy strategy. As has been discussed, this is partly about the extent to which concepts of



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contribution are balanced against other principles within welfare. However it is also about the scope of ‘contributory welfare’, which has traditionally related to benefits, or the social security system, the main focus of this article. However its spirit and sentiment could reach across to other areas of social policy. Housing would be one example, where those in work could be given greater priority in the allocation of social housing. Living wage could be another, through some means to ensure that those who go out to work earn a decent standard of living.

In addition, a revived contributory dimension in welfare should fit within a wider social and economic strategy. This should rest on a commitment to full employment and strong links to improving job quality, raising wages and embedding flexible working as a norm. It should focus more on universal services than universal benefits, as they embody real human relationships that underpin an integrated society. This could mean extending childcare by switching resources from Child Benefit over a sustained period. It should also place greater emphasis on local democratic control, such as over housing. And it should separate out temporary assistance at crisis points from longer term support for those without an earned income or in particular categories of need.

So, in summary, what could ‘contributory welfare’ mean? A reordering of the welfare state around the principles of contribution and reciprocity, to provide real protection for people at major moments in their life - losing a job, having a child, growing old - alongside clear commitments on housing, childcare and a living wage. This would require institutional innovation and a strict prioritisation of resources, given the reality of fiscal constraint, but it could form the basis for a new covenant - addressing insecurity, embodying Labour values and making welfare popular again.

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### Notes

1. Labour urges radical rethink on welfare, *Guardian*, 2.1.12; Ed Miliband’s speech hits the right note on welfare responsibility, *Guardian*, 13.6.11; Welfare

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should reward contribution, *Shifting Grounds*, 26.3.12.

2. H. Reed and M. Dixon, 'National Insurance: Does it have a future?', *Public Policy Research*, Vol 12 Issue 2, 2005.

3. J. Hills, *Inclusion or Insurance? National Insurance and the future of the contributory principle*, CASE paper 68, LSE 2003.

4. M. Oakley and P. Saunders, *No Rights Without Responsibility: Rebalancing the welfare state*, Policy Exchange 2011.

5. I am grateful to Kate Bell for her helpful observation that these three conceptions cover distinct elements, or stages, of the welfare system: (a) the basis of entitlement to support; (b) the expectations placed on those in receipt of support; and (c) the way support is organised and delivered. This provides a useful way of structuring an approach to the potential role (and limitations) of contributory elements within the welfare system.

6. See G. Cooke, *National Salary Insurance: Reforming Welfare State to Provide Real Protection*, IPPR 2011.

7. It should also be remembered that welfare rights campaigners from the 1970s onwards have sought to remove variability and subjectivity from the system.