VOLUME 6

THE COLLECTED WORKS OF ARTHUR SELDON

The Welfare State: Pensions, Health, and Education

THE COLLECTED WORKS OF ARTHUR SELDON

VOLUME 1	The Virtues of Capitalism
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VOLUME 5	Government Failure and Over-Government
VOLUME 6	The Welfare State: Pensions, Health, and Education
VOLUME 7	The IEA, the LSE, and the Influence of Ideas (includes an index to the series)

Arthur Seldon

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THE COLLECTED WORKS OF ARTHUR SELDON

The Welfare State: Pensions, Health, and Education

ARTHUR SELDON

Edited and with a New Introduction by Colin Robinson

LIBERTY FUND, Indianapolis

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CONTENTS

Introduction by Colin Robinson ix

THE RELUCTANT CRUTCH 3

PENSIONS FOR PROSPERITY 9

THE FUTURE OF THE WELFARE STATE 51

AFTER THE NHS 67

THE GREAT PENSIONS "SWINDLE" 105

Acknowledgements 109

Open letter to Mr. Richard Crossman 111

I. Why This Book? 115

II. What Is at Stake 120

III. "Swindle"? 126

IV. The Strain on Political Institutions 129

V. How It All Began 135

VI. Crossman's National Superannuation 145

VII. Eight Principles—Eight Fallacies 155

VIII. Humanity for the Aged 170

IX. Pensions in Industry 174

X. Saving for Democracy 180

XI. The Contract of the Generations 186

XII. National Insurance and the Civil Servants 191

XIII. Overseas Exemplars—or Warnings? 197

XIV. What Now? 209

Envoi 214

Appendixes 217

WITHER THE WELFARE STATE 225

PENSIONS WITHOUT THE STATE 269

THE VERDICT OF HISTORY 279

THE RETREAT OF THE STATE IN SOCIAL WELFARE 289

Index 305

INTRODUCTION

Volume six of The Collected Works of Arthur Seldon consists of eight articles and one book that set out Seldon's critique of state-provided welfare. They span a period of almost forty years, from 1959 to 1998. From the earliest article, the general lines of the critique become plain, and they are maintained consistently throughout Seldon's work, as he explains the development of the "welfare state."

The welfare state, says Seldon, cannot in the long run be the solution to the problem of poverty. It is driven by misguided egalitarian views that make it universalist, providing "benefits" for the middle classes as well as for the needy instead of concentrating on those who genuinely require help. State-provided welfare suffers from the same problems as do other state activities. Because it finances welfare through the tax system, it damages incentives to work; it also diminishes incentives to save for the future, to provide for medical and other emergencies, to educate, and generally to provide for one's family, as the state appears to take over such responsibilities. Moreover, the administrative costs associated with the accompanying bureaucracy are invariably excessive compared with the competing costs of private provision.

Another significant argument that Seldon stresses throughout his work is that, once the state begins to provide "free" welfare services, such provision becomes very difficult to stop. State welfare may appear to be justified as a temporary expedient but, as people's incomes rise, Seldon says that most people should be capable of providing for their family needs. The welfare state should decline relative to incomes, and perhaps absolutely, as those incomes increase. But state welfare provision is, by its nature, self-perpetuating: governments are invariably reluctant to let go. Seldon quotes, with approval, in several articles the prophetic words of the famous British economist, Alfred Marshall, who told the 1893 Royal Commission on the Aged Poor that he disapproved of universal pensions schemes because "they do not contain, in themselves, the seeds of their own disappearance. I am afraid that, if started, they would tend to become perpetual."[1] Seldon argues that, had people known early in the twentieth century when the British welfare state was conceived that incomes would rise so much, they might have found a better way of dealing with poverty than supplying the "crutch" of the welfare state. A crutch, Seldon says, is a useful device for helping those with broken limbs, but it is a hindrance once that limb becomes healthy. The crutch of the welfare state, which leads to unnecessarily high taxes, poor incentives for savers, and damage to the family, is not easily removed.

The first article in this volume was written in 1959 for the journal *Time and Tide,* which had a section titled "Notes on the Way" in which guest authors were encouraged to express radical ideas. An editor hoping for such views must have been pleased with Seldon's contribution, which contends that the welfare state must be removed as "wealth grows and spreads" or it will "impair the abilities it helped to nurse." The article, titled "The Reluctant Crutch: Replace the Repressive State by the Liberating Market," is the first publication in which Seldon uses the crutch as a simple analogy to reveal the essence of the problem of state welfare. He puts it as follows: "A crutch helps a broken leg to heal, but once the leg is healed the crutch gets in the way; and if it is kept too long, the leg will never learn to walk again." Keeping the welfare state too long means that it becomes "a vast, wasteful, futile machine for taking money out of people's pockets and putting it back into their purses, with a large slice for administrative drones sucked up on the way." The aim should be to replace state provision by markets, gradually withdrawing state assistance.

Seldon points to the expense of state welfare provision and the scope for cutting taxes if the role of the state were reduced. He proposes no communal provision of new services that people could provide for themselves: in particular, the proposals being put forward (at the time he wrote, in 1959) for a new compulsory pension scheme should be scrapped, because most people are increasingly able to save for themselves. People deserve to hear that, as state subsidy is lost, taxes can be reduced. Thus, "people will gain for they will be exchanging a crutch for a healthy limb." The politicians ought to be preparing the way.

1. Alfred Marshall, *Official Papers,* Macmillan, 1926, quoted in Arthur Seldon, *Pensions for Prosperity,* IEA, 1960 (the second paper in this volume).

Article two in this volume, *Pensions for Prosperity* (IEA Hobart Paper 4), written in 1960, concentrates specifically on pensions. In his foreword to the paper, Oscar Hobson, arguably the foremost financial journalist of his day, writes that Seldon "throws down a challenge to all the old-fashioned dogmas of welfare statism" (p. 9).

Seldon begins from the comment by Alfred Marshall, quoted above, about how state pension schemes are likely to become perpetual. He points out that, in Britain, private provision preceded state provision, and he goes back to first principles to show that private provision is inherently superior. For example, investment managers in private companies are likely to be more effective in pursuit of the interests of pensioners than "the directors, managers and professionally trained advisers of a State Investment Authority, exposed to political pressures and departmental jostling and without the stimulus, the discipline or the measuring rod of competition" (p. 23–24). In practice, argues Seldon, the British state pension scheme has been characterized by "uncertainty, unpredictability and capriciousness" (p. 24). It has discriminated against the needy: it "distributes bread to people with cake and denies a second loaf to those with only one" (p. 11). It has piled up deficits as politicians have succumbed to pressures to make general increases in payments. These problems will not be solved, he says, by introducing the "graduated" pension schemes (second state pensions, with contributions varying with income), which both the Conservative and Labour Parties favored at the time he wrote.

According to Seldon, a new approach is required that moves away from the prevailing philosophy of state dependence but that gives help to those (and only those) who genuinely require it, recognizing that the number of needy will decline over time as affluence spreads. The purpose should be to allow "every man and woman to live *without* assistance from others; and the role of assistance should be not to replace but to fertilise, nurture and hasten independence" (p. 41). He then sets out a detailed program for a gradual transition from dependence to independence in place of the government's scheme, which was "conceived in fear, composed in haste, adopted in ignorance" (p. 47). Seldon's fundamental reform plan would start by repealing the latest legislation, the 1959 National Insurance Act; it would encourage private provision for retirement in place of the state scheme; and it would wind up national insurance over a period.

Article three is a very explicit and penetrating attack on the "universalist" principle that underlies the welfare state. "The Future of the Welfare State" was first published in *Encounter* in 1967 and twice reprinted elsewhere.[2] The views of the universalists who want "social benefits to be equal and shared by all" are "inhumane," writes Seldon, because "equal treatment of people in unequal circumstances is not equality" (p. 59). He asserts that the state will not be able to raise sufficient revenues to satisfy the universalist principle and that, in any case, it is "foolishly wasteful" to hand state aid to the whole population when only "10%, or 15%, or 20% . . . need it" (p. 54).

The role of the state in welfare, says Seldon, is "not to organise and provide welfare but give the purchasing power to people without it, and perhaps to lay down minimum requirements for buyers and minimum standards for sellers" (p. 53). He sets out a program of reform, in stages, that would give more to people in need, provide everyone with choice, increase welfare, and reduce taxation. The longer this fundamental reform is delayed, he emphasizes, "the more convulsive the upheavals when change is enforced by rising incomes, growing social aspirations, and overseas example" (p. 63).

In the fourth article, Seldon turns his attention to one of the most distinctive features of the British welfare state, the National Health Service (NHS). *After the NHS* is IEA Occasional Paper 21, published in 1968, and subtitled *Reflections on the Development of Private Health Insurance in Britain in the 1970s.* It started life as a paper prepared for a conference in Australia on voluntary health insurance, but there are some additional thoughts, in an epilogue, about international experience of state and private medicine. In his foreword to the paper, Ralph Harris notes Seldon's isolation in his crusade against state welfare: "[he] has fought at times almost single-handed against political complacency and all-party conservatism to compel reconsideration of the assumptions on which universalist welfare policies were perched" (p. 68).

Published on the twentieth anniversary of the founding of the NHS, the article starts by reviewing the state of the NHS, pointing out "its major emerging disadvantage, that the state has been unable to raise enough tax revenue to provide medical care at rising standards" (p. 72). British politicians have been out of touch with public preferences for health care, says Seldon. "The method of the polling booth does not suffice" (p. 79): a market is indispensable if preferences are to be revealed. He goes on to explain how a market in health care could and should be established, with private insur-

2. In Robert Schuettinger, ed., *The Conservative Tradition in European Thought,* Putnam, 1970, and in Hardy Bouillon, ed., *Do Ideas Matter? Essays in Honour of Gerard Radnitzky,* The Centre for the New Europe, 2001.

ers having the primary role but with the state acting "as a long-stop for the exceptionally chronic, the exceptionally costly, and the exceptionally poor" (p. 95). He ends on a note that has echoes in his later writings about welfare: "People in countries with widely differing but rising incomes seem to want more *individuality* in medical care (and in other welfare services) to go with their expanding choices in ordinary everyday or household consumption. . . . The days of a 'free,' tax-financed NHS are numbered" (p. 103).

The fifth work in this volume is a short book, *The Great Pensions "Swindle,"* published in 1970[3] with a very specific purpose—to draw attention to and to explain the implications of "the massive inflation of state pensions" (p. 115) proposed in the 1969 National Superannuation and Social Insurance Bill. The word "swindle" was not Seldon's: it had been used by politicians of both major parties when referring to each other's pension proposals. As Seldon points out, "the very practice of presenting 'national insurance' as insurance rather than as a form of taxation . . . is objectionable because it is deceitful. That is the source of the national insurance 'swindle'" (p. 128).

The book begins with an open letter to Richard Crossman, then minister for social services, who is criticized for not consulting the public about his scheme and for not explaining to the public its implications—for instance, that it is a means of "reshaping the social, economic, political and moral framework of society" (pp. 113–14) and that it is likely to ensure that, instead of people having occupational schemes,[4] they will become wholly dependent on the state on retirement. There is, says Seldon in chapter one, something wrong with a political system that legislates for "a universally compulsory method of saving for retirement which few except several score actuaries, civil servants and politicians understand, which would be rejected on principle by the mass of the citizenry, and which is unsuited to the social order for which it is framed" (p. 118).

In the rest of the book Seldon explains in detail why the origin of the proposed new scheme is the government's need for more money that it can raise openly through general taxation and why the scheme has nothing to do with normal principles of "insurance." He goes back to the origins of the welfare state to reveal the errors that were made, and he exposes the fallacies in the

3. Seldon summarized the conclusions of the book in an article in the *Daily Telegraph* that is reprinted as "The Great Pensions Swindle," in *The State Is Rolling Back* (volume 2 of these Collected Works).

4. Occupational schemes are private schemes provided by an employer to which both employee and employer contribute.

Crossman scheme, which is just "one more effort to pass the buck to the future" (p. 214). Returning to the arguments he used in *Pensions for Prosperity* (article two in this volume), Seldon argues that, instead of Crossman's dangerous move toward centralization and government control, fundamental reforms are required to encourage voluntary provision for retirement, with the gradual winding up of compulsory national insurance.

Article six returns to general arguments against state provision of welfare services. *Wither the Welfare State,* originally a lecture, was published by the IEA in 1981 as Occasional Paper 60, its title indicating Seldon's view that in the long run the welfare state will wither away: the only way it could be maintained would be by a degree of government coercion the electorate would not tolerate.

In this paper, Seldon looks back at a century of the welfare state—a "wrong turning." He marshals the latest statistics to demonstrate how it has gone awry and the extent to which people are escaping from the uniformity it imposes as it attempts to create "equality by coercion" (p. 237). Welfare services would have developed in a better fashion, he claims, if the government had not intervened to provide compulsory state education, medicine, housing, and pensions. The welfare state is supported both by false ideas and by vested interests. It embodies not seven but eight deadly sins, which Seldon identifies. Eventually, it will wither away because "it will be increasingly difficult to attempt equality when supply and demand facilitate diversity" (p. 261). "We cannot depend on a government of any party to liquidate the welfare state as an act of patriotism or in response to public preferences. In the end it will be market forces that will make the welfare state yield to private choice and technical advance" (p. 263).

Articles seven and eight had their origins in a symposium in the October 1994 issue of the IEA's journal *Economic Affairs,* for which Seldon was guest editor. The articles in the symposium were turned into a book, IEA Readings 45, published in 1996, titled *Re-privatising Welfare: After the Lost Century,* which Seldon edited and introduced with a preface. "The lost century" refers to a phrase of Michael Beenstock's that indicates that private markets in health, unemployment, and other benefits were developing late in the nineteenth century, before the state crowded them out by imposing its own form of "social" insurance. This idea—that a whole century was lost because of misguided and damaging government intervention—neatly encompasses Seldon's views on the subject of social insurance.

In addition to his preface, Seldon made two contributions to the book, both of which are reprinted in this volume. The first is his chapter on pensions, "Pensions Without the State," and the second is his final, summary chapter, "The Verdict of History."

"Pensions Without the State" starts by reviewing Seldon's earlier work on the subject, showing how voluntary saving by all income groups began in the nineteenth century and continued through the twentieth century. The extension of the state pension in 1948 began a "damaging conflict" between the "growing savings habits of the people" and the political process and forced people to pay the fraudulently described "National Insurance contributions" (p. 272). It would have been better if markets had been allowed to discover "new methods of preparing for comfortable retirement" (p. 274). Seldon points out that he had for forty years been urging fundamental reform, with a move to mainly private provision, but governments of both major political parties had failed to take notice. The lesson of history is that "pensions cannot be left to the political process with its short-time horizons and its temptation to tax or borrow to disguise its inability to create the welfare services the people would prefer" (p. 275).

"The Verdict of History" is not just a summary of *Re-privatising Welfare;* it is an excellent, succinct account of Seldon's views on the deficiencies and dangers of the welfare state after decades of consideration and argument. The welfare state, he says, is a "political artefact [with] its origins . . . in the party politics of the Victorian era" (p. 279). It may seem to have some achievements to its credit but the opportunity cost has been huge. Any benefits have come about through the application of massive resources that could have been used in other ways: the true cost has been the "better welfare it suppressed" (p. 280). The probability is that, without the welfare state, markets would have continued to evolve to provide, inter alia, education, health care, pensions, housing, and unemployment insurance, tailored to meet the demands of individuals. State welfare has suppressed experimentation by monopolizing welfare services. Furthermore, it has been socially divisive for the middle and the working classes, the latter having to "content themselves with what they are given by the state" (p. 282).

The obstacles to change, says Seldon, are fundamentally political. Governments are unwilling to reveal the imperfections of state-provided welfare by opening it up to competing private "methods of production" (p. 284). But consumers will nevertheless find means of escape as they become increasingly unwilling to tolerate second-class services: "If the political process cannot produce modernised welfare services because it is prevented by ideological faith in the state, by bureaucracy, and by vested interests, the market process will replace it" (p. 285).

The ninth, final work in this volume is a contribution to a book, *The Retreat of the State* (Canterbury Press, 1998), which reprinted the 1998 Launcelot Fleming Lectures,[5] sponsored by Norwich Cathedral and the University of East Anglia. The lectures addressed the issue of whether the state had become too big and should retreat. There were four distinguished lecturers: Lord (Nigel) Lawson, former chancellor of the exchequer; Rev. Michael Taylor, former director of Christian Aid; Lord (David) Owen, former foreign and commonwealth secretary and leader of the Social Democratic Party; and Arthur Seldon.

Seldon's chapter in the book, "The Retreat of the State in Social Welfare," begins by emphasizing the "excesses of the democratic state" (p. 290). Governments are not all-seeing, impartial, and efficient: they tend to yield to those who importune most, not to the most deserving. Seldon argues that governments should return purchasing power to people and free prices so that genuine consumer preferences will be revealed. But the state has advanced so far into people's lives that it finds retreat difficult.

Even if the government does not retreat voluntarily, says Seldon, state welfare will be rejected (and, indeed, already is being rejected) by individuals and families. State services will always be short of the tax funds required to raise their standards. People will rebel against mediocre services. Rising incomes will permit them to pay for private services by fees or insurance; advances in technology are providing tailor-made services to replace the standardized state variety; resistance to higher taxes is increasing; and various means of escape from state services are opening up (for example, the revival of barter).

As in all his writings, Seldon sees hope in the prospect of a consumer revolt that will restore the market. A government may imagine it is immovable, but it can be bypassed by consumers and will eventually have to retreat from social welfare and other "superfluous functions." He ends the article:

> But it is retreating too slowly. The subjects are rebelling. And they will continue to rebel until government retreats sufficiently to liberate the freedoms created by economic advance. (p. 303)

5. Launcelot Fleming was Bishop of Norwich in the 1960s.

THE RELUCTANT CRUTCH

REPLACE THE REPRESSIVE STATE
BY THE LIBERATING MARKET

The Reluctant Crutch

Difficult as it was fifty years ago to construct the Welfare State as we know it, it looks like being even more difficult to dismantle. The case for dismantlement hardly needs restatement. In the perspective of social history the Welfare State is a temporary expedient designed to accelerate the transition from poverty to self-support. It must, therefore, be removed as wealth grows and spreads. If not, it will impair the abilities it helped to nurse.

Moreover, since the cost is borne increasingly by those who benefit, it becomes a vast, wasteful, futile machine for taking money out of people's pockets and putting it back into their purses, with a large slice for administrative drones sucked up on the way.

Although the case is clear enough, the reasoning behind it will need to be employed assiduously if it is to be seen for the common sense in it. The metaphor of the crutch is perhaps the easiest way to drive it home. A crutch helps a broken leg to heal, but once the leg is healed the crutch gets in the way; and if it is kept too long, the leg will never learn to walk [again]—(at all).

This does not mean that the need for all forms of State assistance or paternalism will gradually shrink; some will continue for decades, and there may be new ones. But they will be outnumbered by those which become superfluous. The *content* of State welfare will change, but its *size* will shrink, certainly in relation to the rising national income, but also perhaps absolutely.

In terms of economic machinery, the aim must be to replace the State by the open market. Instead of paying for doctors and medicines, for schools and universities, for unemployment insurance and for pensions by taxes, we shall get them in the open market and pay as we buy, or anticipate payment by insurance.

Of course, the process must be performed slowly in order to minimise disturbance and hardship. As the need for help falls away, State assistance can gradually be withdrawn; some people will still need help or guidance by 1980. But the process cannot wait until everyone can dispense with help. Patients with broken legs that have healed do not have to carry crutches until the last leg in that ward has healed. We cannot wait until every man can afford to buy medicines and education and life assurance out of income before all the rest are allowed to do so.

It is not sensible to wait until every parent is a paragon before permitting any parent more freedom in education. Social welfare and good government do not require that the best shall be judged and treated as the worst.

Politicians may shrink from such a reversal in the attitude to social reform that has dominated English political thought. But those who do have forgotten that the Welfare State is becoming a system of double entry bookkeeping. For every communal service enlarged or added, a tax has to be raised or begun.

Conversely, for every free or subsidised service that is reduced or withdrawn, a tax could be removed or cut. If, say, every parent whose income was high was required to begin the de-crutching process in education by paying 2s. 6d. per week for each child in a State school or 2s. 6d. for each visit to a National Health Service doctor, a cut could be made in a tax that, as nearly as possible, benefits them—perhaps a reduction in the income tax, or purchase tax, or in the tobacco or beer taxes.

The more the two sides of the account are seen to be intimately linked, the faster the public understanding of the process and the greater the welcome for it.

There is a long way to go. As taxpayers we paid in 1957 £2,200 million in income tax, £710 million on tobacco, £480 million in purchase tax, £420 million on beer, wines and spirits, £330 million on petrol and oils, and £660 million in National Insurance and Health contributions. Out of these and lesser taxes we recovered £1,140 million in National Insurance, pensions and assistance, £890 million in education, child care, school meals, milk and welfare foods, £690 million in health services, £400 million in housing, and other amounts in the lesser services.

In all, the social services cost about fifteen per cent of the national income (over £3,000 million—out of some £19,000 million). In perhaps twenty-five years, when personal incomes are doubled, the proportion may need to be no higher than five per cent, and it might be possible to reduce the proportion of the national income taken in taxation from its present thirty per cent to fifteen per cent.

One thing is quite clear: it would be wrong to plan the communal provision of *new* services which people are increasingly able to provide for themselves. The outstanding example here is retirement income. By personal saving, by life assurance and annuities, and by contributions to occupational pension schemes, people are providing out of income for retirement. We should rejoice at the urge to independence after a life of work.

Yet we are now proposing to embark on a new compulsory State pension scheme that must impair the ability and the willingness of many, especially wage earners, to save voluntarily. The pretext that it is necessary in order to plug the gap in the existing pension scheme is too flimsy to be taken seriously. Democracy is taking a wrong turning.

The most stubborn problems may be the political one of giving the people a lead, the administrative one of arranging the changes so that the disturbance and hardship will be minimised (they will not be entirely prevented), and the public relations tasks of showing that for every loss of subsidy there will be a gain in tax, that on balance the people will gain for they will be exchanging a crutch for a healthy limb.

Above all, the need is to reorientate thinking on the social services. Nassau Senior and Alfred Marshall laid down the right line many years ago. It is now being taken up by liberal economists in this and other countries. The gains in personal and civic dignity, political stability, and economic prosperity that would accompany the transition from dependence to independence are clear.

Economists, actuaries, administrators and social workers have yet to work out ways and means. It is for the politicians to prepare the way.

THE GREAT PENSIONS “SWINDLE”

THE GREAT PENSIONS "SWINDLE"

Is "Swindle" a fair title?

Mr. John Boyd-Carpenter, for the Conservatives, replying to Mr. Richard Crossman, Secretary of State for Social Services, in a House of Commons debate on Pensions: "He will recall that Mr. Stanley Orme . . . mentioned today that in his degenerate days he [Mr. Crossman] referred to that method of financing as a swindle. . . . if those who were responsible for that scheme were responsible for a swindle it was a very small peccadillo compared with the scale of swindling operations for which Mr. Crossman is responsible. The operations of Savundra or Whittaker White appear as that of mere amateurs compared with Mr. Crossman if there ever were any validity in the charge which, with remarkable frequency, he used to make in those days."

(*Hansard*, Cols. 742–3, March 6, 1969)

To the working classes
among whom I was born
in the faith that capitalism
will save them from paternalism

ACKNOWLEDGEMENTS

I owe my interest in pensions to the late Philip Fothergill who in 1947 asked me to steer a committee of three (with Lord Amulree and Barbara Shenfield) on the economic and social problems of the aged for the Liberal Party.

I have to thank Richard Sleight for informed advice and corrections on technical matters, Barbara Marlow for resourcefully assembling the statistics for some of the charts, Kenneth Smith for almost instant discovery of references and sources, and Janet Henderson for rapidly producing with Scottish imperturbability a coherent text out of increasingly illegible longhand and uncomplainingly retyping it after revision.

My wife, as always, listened readily to repeated rehearsing of phraseology and suggested *les mots justes.*

I am indebted to the Classical Economists and to the present-day economists who have inherited the classical tradition—its insight into human nature, its common sense and its understanding of the conditions of liberty—for inspiration.

Errors will remain despite willing assistance and conscientious checking. For the imperfections I am solely responsible.

24 December, 1969. *A.S.*

Above this race of men stands an immense and tutelary power . . . absolute, minute, provident, and mild. It would be like the authority of a parent, if . . . its object was to prepare men for manhood; but it seeks . . . to keep them in perpetual childhood . . .
. . . such a government . . . provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances—what remains, but to spare them all the care of thinking and all the trouble of living?

Alexis de Tocqueville, 1841

. . . the mode in which the government can most surely demonstrate the sincerity by which it intends the greatest good of its subjects is by doing the things which are made incumbent upon it by the helplessness of the public, in such a manner as shall tend not to increase and perpetuate but to correct that helplessness . . .
. . . government aid . . . should be so given as to be as far as possible a course of education for the people in the art of accomplishing great objects by individual energy and voluntary cooperation.

John Stuart Mill, 1848

. . . universal pensions . . . do not contain . . . the seeds of their own disappearance. I am afraid that, if started, they would tend to become perpetual.

I regard poverty as a passing evil in the progress of man; and I should not like any institution started which did not contain in itself the causes which would make it shrivel up as the causes of poverty shrivelled up.

Alfred Marshall, 1893

An Open Letter to Mr. Richard Crossman Minister for Social Services

Dear Mr. Crossman,

In the Explanatory Memorandum on your National Superannuation and Social Insurance Bill[1] you say, in a passage which reads more like your drafting than a civil servant's:

(i) "Public discussion . . . has produced suggestions that social security should develop along quite different lines . . . "
(ii) "but there has been little criticism of any major feature of the scheme . . . "
(iii) "given that the general approach [of your scheme] is right, as the Government believe it is . . . "

It is not true that your scheme has escaped (or withstood) criticism. And this short book crystallises criticism of its "major features" that you cannot rebut and emphasises others you have avoided. But even if the scheme were unassailable in feature and detail, it is defective in its *rationale.*

Throughout its history in this and other Western countries, with the main exception of Australia, "social insurance," as you call it, has been used to raise government revenue for purposes that have had little to do with insurance—*or poverty.* It may have begun as a humanitarian device to alleviate poverty but it has been made a political instrument to establish, by degrees, an increasingly egalitarian, centralised society. In the process public attention has often been shifted from "general approaches" to "major features," from ultimate objectives to technical *minutiae.* You have, perhaps unwittingly, also distracted attention away from its main, but most objectionable, feature—compulsory contributions and benefits related to earnings—by secondary proposals, such as attendance allowances for the disabled, that are indeed overdue but that have nothing to do with it and could have been introduced separately.

It may suit you now to brush aside examination of your "general ap-

1. Cmnd. 4222, December, 1969.

proach" or of "the quite different lines" that some believe preferable, and to fasten attention on your "major features." But your scheme would be a fundamental reconstruction of social policy with far-reaching economic and political effects that could last 50 years. You must not be allowed to put the cart before the horse. You cannot expect the country to discuss your scheme before you have satisfied it that your general approach is "right." Its "rightness" is *not* "given." You may think it is right. The public has not yet said what it thinks—because 999 out of 1,000 do not understand what you are up to. The handful of technical specialists you have consulted in the life assurance companies, the pension funds, the Confederation of British Industry or the Trades Union Congress do not know what the pensioner of the future thinks, because they have not asked him. Have you? Have you asked the individual pensioner of the future how *he* would like to save for retirement? Have you told *him* how your scheme would work? That it is *not* insurance? That what his employer and the State pay in will eventually come largely out of *his* pocket as a consumer and a taxpayer? That the higher paid in the scheme, including wage-earners and moderate salary-earners, will be paying for the lower paid because it is too late for you to suppress occupational schemes in which the highest paid are saving for retirement? That the National Superannuation Fund would *not* have a fund of contributions invested for his retirement? That it is no more than a tank topped up with his contributions that will be paid out as fast as he pays them in?

Not least, have you explained that your scheme, which you have urged because some people have no occupational pension, might make it certain that they never will have one and that they will therefore be wholly dependent on the State for their income in retirement? How do you propose to explain this governmental blessing for the "social divisiveness" against which you and your advisers have long inveighed?

The "expert" and the "spokesman" (often combined) are becoming more the tyrants and autocrats of our society than the advisers and servants. And particularly in "social insurance" they develop organisational attachments and ideological commitments that generate disdain for the common man's inability to understand their arcane expertise and create resistance to his urge to understand where he is being led. Politicians have used and capitalised on the experts to serve their short-term purposes instead of disciplining and defying them to serve the people.

So first things first. Ends before means. Tell the people where you are going; then, *if they agree,* discuss the ways of getting there. Before you entangle Parliament in details for the next few months, the onus is on you to persuade the country that your general approach is not merely "right," whatever that means, but the *best possible* for the years ahead and the advancing social and economic conditions they will bring.

I don't think you can do that. British social history, logical reasoning and common sense, the reality of political institutions, human nature and overseas experience are against you. You speak as though all were now over save the details. You can use your parliamentary majority, now four years old, to force one more distended inflation of "social insurance" into law. But you may win a Pyrrhic victory because you will not have persuaded the people. In my judgement they would not want your scheme if you tried.

You may say the people do not understand, even cannot understand and should leave such complicated matters to you, the civil servants and the actuaries. Then you should say so. And take the consequences at the General Election.

The people are concerned not only with the financial and technical detail of creating pensions in retirement, but also with the ethical, moral, economic and political implications of your scheme for the province and power of government in a democracy, and with personal liberty.

The last is not the least. Not long ago a former Minister of Pensions asked: "Why do you care so much about personal choice?" She may not know, or recall, John Stuart Mill; but you will remember *On Liberty.* This passage may help to remind all of us what the argument on pensions (and every government policy) is all about.

> The human faculties of perception, judgement, discriminating feeling, mental activity and moral preference, are exercised only in making a choice . . .
>
> . . . he who lets the world, or his own portion of it, choose his plan of life for him has no need of any other faculty than the ape-like one of imitation. He who chooses his plan for himself employs all his faculties . . .
>
> It really is of importance, not only what men do, but also what manner of men they are that do it. Among the works of man which human life is rightly employed in perfecting and beautifying, the first in importance surely is man himself.

That, to repeat, is what it is all about. In enlarging national insurance you would be reshaping the social, economic, political and moral framework of society. You would not merely be showing whether or not you are better than the insurance companies, or investment experts, or private enterprise generally at organising pensions. You would be helping to make Britain a more centralised, a less spontaneous society, in which man would have less and less power to learn by experience how to perfect himself. And that would be a heavy price to pay even if government were cleverer at pensions.

In the House of Commons on 4 December, 1969, a Labour backbencher said you "could reasonably hope to be regarded as the Beveridge or the Bismarck" of your time.[2] Beveridge cared about human security but also about freedom, individuality, independence. Bismarck cared more about power. The Prussian/German genesis of social insurance is hardly a happy augury for British democrats, conservative, liberal or socialist. If your Bill passes into law, you may be remembered in history less as a Beveridge than as a Bismarck. You would not be the first politician who, with the intention or pretext of alleviating human want, enacted human repression.

Yours sincerely,
Arthur Seldon

Godden Green, Kent
24–25 December, 1969

2. Mr. A. Palmer, *Hansard,* Col. 1780.

CHAPTER I

Why This Book?

This short book was drafted in early December and revised by early January. If I had had more time I should have dealt more fully with the arguments shrewdly marshalled and deployed by Mr. Richard Crossman, with academic acumen but with variations according to his audiences during 1969, for the massive inflation of state pensions he proposes in the National Superannuation and Social Insurance Bill, 1969. If the die is not yet cast, if there is still time to reflect, a short reminder in non-technical language to people in Parliament and at home that the world in which we live makes inflated, compulsory and universal state pensions unnecessary and undesirable might do more good than a longer book that came later or too late.

This Bill embodies the thinking of a small number of people—mostly sociologists[1] and politicians—speaking for themselves, not even for the Labour Party, possibly not for the Government, and certainly not reflecting the aspirations of the rising wage-earner.[2] Their intentions may vary from the praiseworthy but fallacious—the desire to avoid "two nations" in old age and the fall in living standards in passing from earnings to state pension on retirement; through the expedient but question-begging—the raising of revenue for the badly-battered National Insurance Fund and for current retirement pensioners; to the calculating but problematic—the desire for political popularity and re-election in 1970–71. But they stare blindly at the growing dichotomy between the increasingly satisfied demands of the emerging wage-earner as a consumer of commercial goods and his frustration as a "beneficiary" of state welfare. When confronted with chronic deficiency in state pensions, education, medical care, they mindlessly mouth "More money! higher taxes!" and, on a lower moral plane, "but let's call it social insurance."

1. Also known as "social administrators." Note on Sour/Sentimental Sociology, page 221, Appendix B.

2. A Note on Rising Social Expectations, page 119.

But the sponsors of the Bill do not really care what the mass of the people want. If they did, they could hardly doubt that the growing but unsatisfied demand for higher standards, better quality and personal service in welfare will in time provoke unease, resentment, rejection and explosion. The men and women who find comfort, attentiveness and choice in the shop, the hairdresser's salon, the airport terminal—where the worker's pound is as good as any man's—will not for ever tolerate the rationing, queuing and discomfort, the officious condescension and patronising arrogance in the state school, the National Health Service hospital, the Council Housing Manager's office, or the local branch of Mr. Crossman's Department of Social Services. The days of this twilight world of "double standards" are numbered.

But they can be prolonged. This is what the National Superannuation and Social Insurance Bill, 1969 would do. Emancipation by rising incomes, choice of service and competition between suppliers has been familiar in everyday consumption and has been spreading to saving for retirement. Mr. Crossman, therefore, is anxious to see his Bill become law, not merely for what may seem a patently electoral reason but for the more profound socioeconomic one that if the deed is not done soon it may be too late in another five years.[3] Most salaried men are accumulating occupational pensions and wage-earners, though lagging behind, would have been covered in the near future; the introduction of inflated state pensions that would retard occupational schemes would therefore be an act of discrimination against the working people Mr. Crossman claims to champion. Having caught them in the state cage, or prevented them from escaping, he would use *them,* rather than the contracted-out salaried man he cannot catch or the taxpayer at large, to keep the lowest paid.

If the scheme could be made voluntary, or could be wound up after a short trial, it would not be objectionable in principle, even though still damaging. But politicians all over the world are better at expanding national insurance than at adapting it to meet social and economic change. That is perhaps the most telling lesson from almost every country in which it has been tried[4] (an honourable recent exception is New Zealand which scrapped its social security tax in 1968). If the National Superannuation and Social Insurance Bill 1969 becomes an Act, and the scheme is begun in 1972, the tan-

3. The *New Statesman* is engagingly disarming, "the private sector has grown so large that we have to live with it. . . . The Swedish solution [chapter XIII] is not now available." Editorial, 24 January, 1969.

4. Chapter XIII.

gled skein would not easily be unravelled, or the legislation repealed and reversed. The more Western countries have resorted to national insurance the more it becomes a mindless monster and the less a sensitive, humane and refined instrument of social policy for succouring people in trouble. It has become a one-way ticket on a non-stop passage, a balloon that can only be inflated—or pricked. Even though incomes will go on rising in the 1970s and 1980s, and more people will be able, and eager, to save for retirement in ways they prefer, reasons would be found—political impracticability, administrative complexity, constitutional convenience, financial continuity, or perhaps a group of fishermen in the Outer Hebrides not covered by a pension scheme—for preserving it long after the circumstances that gave it plausibility were lost to memory. Mr. Crossman triumphantly points to other countries as precedents. Their lessons are precisely the opposite. They are warnings, not exemplars.

It is essentially because the Crossman compulsory earnings-related scheme flouts common (though not always articulate) aspirations that it should be rejected. It looks like bringing out the best and the worst in the political parties. Conservatives may rightly oppose it because it endangers independent institutions, but shrink from condemning it on principle because it can be represented as an enlargement of their 1961 graduated scheme. Liberals rightly oppose it because it invades private saving, but propose an earmarked tax to finance the "flat-rate" pension. Labour members of Parliament will want to support a government measure, but they must also have disconcerting mental reservations. Let me reinforce them. I put it to Douglas Houghton, Brian Walden, Raymond Fletcher—to Messrs. Gunter, Marsh, Taverne, even Roy Jenkins—and other Labour Members that the wage-earner has not asked for the scheme; that if you asked him he would not want it; that it would do more damage to him (by keeping him tied to the State) than to the salary-earner and profit-receiver, who will continue to build up occupational pensions despite discouragement, and save for retirement in other ways; and that providing for married women and widows, or helping them to provide for themselves, need not be part of a new scheme embracing everyone else. The Labour Party is bringing in a measure that is not for the working man. Desmond Donnelly has left the Party because its conception of the welfare state would tether the wage-earner to government benevolence for all time. This is not what the English social democrats intended.

The Crossman scheme would not prevent "the two nations" in old age (once the *raison d'être* for "national superannuation" where the better-off have occupational pensions, and the workers have not) but consolidate and crystallise them. Unless the Government proposes to prevent or inhibit other forms of saving, the middle- and higher-income earners with over £2,000 a year will continue to differentiate themselves by private savings from the under £2,000 a year with state graduated pensions. The Crossman scheme must fail in this—a main—purpose of creating one nation in old age because occupational pensions have by now spread too far and because they are not the only way to save for retirement.

(How far the abolition of "the two nations" is still a main purpose has been made obscure by Mr. Crossman's recent Fabian Tract in which he propounds the intriguing notion—which I call the Theory of Social Damage—that it is proper for pensions to vary with earnings but not medical care or education.)[5]

Social and economic advance makes a vast expansion from flat-rate to earnings-related state pensions outdated. If the Bill is rushed into law by July, 1970, historians of the twentieth century will marvel that it took so long for its politicians to allow for the replacement of widespread poverty in 1900 by widespread opulence in 1970. From the perspective of history they will wonder that the 1960s, while preoccupied with the immediate but dwindling problem of poverty, were oblivious to the opportunities for winding up obsolete forms of government welfare and turning to new ones.

The Bill will slow down the clock of social advance. But its frustration of underlying aspirations will sooner or later be met by increasing evasion. Rising incomes will multiply forms of saving for retirement. In time, perhaps in 20 or 30 years, the scheme might be rejected.[6] In the meantime let it at least be made known to future generations that it was a political artifact based on sociological jaundice and historical myopia, not the will of the people of 1970.

For there is something radically wrong with a political system which can put into law a universally compulsory method of saving for retirement which few except several score actuaries, civil servants and politicians understand, which would be rejected on principle by the mass of the citizenry, and which is unsuited to the social order for which it is framed.

5. *Paying for the Social Services,* Fabian Tract 399, Fabian Society, December, 1969.

6. Mr. Rudolf Klein, a perceptive journalist whose sympathies do not rule his head, suggests the rejection may come earlier. In a preview of the 1970s he says: "The difficulty of maintaining the standard of living of old people persuaded the 1978 Labour Government to scrap Mr. Crossman's pension scheme . . ." *The Observer,* 28 December, 1969.

A Note on Rising Social Expectations

The aspirations of the rising wage-earner are central to the argument of this book. There is visible evidence of it in everyday experience, and the sociologists research into it earnestly. To judge from the final chapters in their two reports, a group of sociologists from the Universities of Cambridge, Essex, Edinburgh and Sussex conclude from a study of well-paid wage-earners in three large Luton firms that, although affluence has not produced "middle-class" political allegiances, their "central life interests are to be found in the cultivation and enjoyment of their private domestic lives";[7] they "define their work as a means of gaining resources for the pursuit of . . . largely familial ends." This is hardly a surprising finding. What is significant is that the process is still in its infancy.

Affluence is still young, even in Luton. The opportunities for realising their expectations are restricted by removing a third of incomes in taxes and providing "free" state education and medical care and subsidised housing and pensions in return. This development is not yet applauded as reflecting the natural desire of parents to endow and enrich the family but rather scorned as social climbing or condemned as queue-jumping. But the increasing emphasis on family life is largely confirmed by Mr. Raymond Fletcher's view, based on his constituency, Ilkeston in Derbyshire, that "aspirations that once had to be expressed in social terms (the organised demand for more schools, more welfare . . .) are now personal or family ambitions. . . . The Welfare State no longer generates enthusiasm among the workers. . . ."[8] Further evidence is provided by the annual Family Expenditure surveys of the Ministry of Employment and Productivity, by the findings of field surveys that indicate a desire for choice in welfare as well as in consumption, and by common observation of the curtains, cookers and cars of the working people of England, the accents at airport terminals and European beaches, and the clothes worn by the younger generation of office and factory boys and girls who are centuries ahead of their grandparents. Their aspirations and horizons are not now fixed for all time.

7. *The Affluent Worker,* Vols. 1 and 2, Cambridge University Press, 1969.
8. *Encounter,* November, 1969.

CHAPTER 11

What Is at Stake

On 17 December, 1969, a Bill was published that may become an Act by July, 1970, unless it is purged or withdrawn on its course through Parliament in the next four months. Yet although it would affect everyone in the British Isles, few understand it, or sufficiently so to know how it will influence their lives.

It is being heralded as a great advance in British social policy. I believe it would be a tragic error. But since January, 1969, when a White Paper[1] indicated its contents, its main consequences have been obscured by a smoke-screen of statistics, secondary (not unimportant but still unrelated) appendages and forbidding detail.

The Act would require almost all employees (about nine out of ten) to pay weekly sums, varying with individual earnings, for a state pension varying with average national earnings. The payments would begin in 1972. The pension would begin in 1973, but on a very small scale, and increase for 20 years until it reached its full amount in 1992. (The size of pensions is shown on p. 152–53.)

The main object appears admirable, reasonable and long overdue. A state pension for the whole community of more or less half of average earnings over the working life seems modest compared with the pension of two-thirds of near-final earnings that more and more salaried people in the civil service, the nationalised industries, local government and private industry can hope to accumulate. Moreover, the state pension, unlike many private occupational pensions (in "public" as well as private employment), would be made safe by being preserved or transferred if the employee changed jobs; and it would keep pace with rising prices after as well as before retirement. Or, at least, so Mr. Crossman says. There would be several additional attractions; not least, two-yearly reviews of pensions being paid, better pensions

1. *National Superannuation and Social Insurance,* Cmnd. 3883.

for widows and divorcees, married women and children. But it is mainly as a civilised advance on the Beveridge scheme of uniform ("flat-rate") contributions and pensions, which had to be raised every few years to keep pace with inflation, that the scheme is being urged by the Government and sold by the Minister of Social Services.

"Sold" may sound more cynical than "urged." But it is more accurate. And it reveals a truth that "urged" conceals. The new scheme is not merely being "urged" by political leaders in a democratic society as a good idea, an improvement on the existing system, and one that should be adopted by the people after reasoned consideration, discussion and debate. It is being "sold" in three senses. First, in the *commercial* sense that the State pension would not be a gift from government but a purchase to be paid for by contributions. There is nothing necessarily wrong with that: if government made more of their activities commercial they would waste less of our money—and would lessen their activities. But, second, this scheme is being "sold" in the *economic* sense that the Government is competing with all the other ways in which we can spend or save our money. It is hoping we will accept the scheme graciously, not grudgingly, because we think it better than other methods of accumulating a pension—or saving for retirement in other ways. And third, the Government is "selling" the scheme in the *political* sense that it hopes to win popularity by it—more popularity than it would by asking for public money for any other social benefit, and more than the other political parties would win by any better scheme for accumulating income in retirement.

Such political "salesmanship" is also not necessarily objectionable, though it is often made so in practice by exaggeration, suppression and irresponsible promise. It is unavoidable in a parliamentary democracy in which political parties compete for electoral favour and power. But it is a truth too often overlooked that politicians, no less than the businessman whose activities and methods they often condemn, are competing. The businessman makes a profit by selling goods that find favour in the market place; the politician acquires power by selling policies that find favour in the polling booth.[2] And in both cases any other alternative would be worse. If businessmen did not compete, the alternative is monopoly that might be difficult to control by legislation. If politicians did not compete, the alternative is a

2. Economists have studied the "entrepreneurial" behaviour of politicians in a new branch of economics. The development is traced by Professor T. W. Hutchison, *Markets and the Franchise,* Institute of Economic Affairs, 1966.

dictatorship that is usually impossible to discipline except by revolution. But the lesson remains: politicians may burn with a zeal to do good, but they cannot exercise it without power, and to acquire and keep power they must be political "salesmen." In the past year Mr. Crossman's gradually-aroused critics had admired his salesmanship even when they became increasingly doubtful about, and progressively dismayed by, his thinking.

But there is a wide gulf between the Government's objectives and the means Mr. Crossman proposes. Of course it is desirable to have pensions near half pay that are not lost on a change of jobs and that go on rising after retirement. That does not mean Mr. Crossman's proposals are the best way to arrange them. Indeed, the 13 years of argument on state pensions since 1957, when Mr. Crossman first announced his thinking on "national superannuation," have held back other and better ways, by creating uncertainty about what politicians would do, as distinct from what they said.

Beveridge can hardly be blamed for evolving a scheme that failed to anticipate inflation. The period he had in mind when he wrote his 1942 Report on social insurance was the 1920's and 1930's when the obstinate evil was deflation. Inflation was a post-war device applied as the lesser evil to ward off the worse evil of unemployment. It is difficult to maintain the value of money, and therefore stable prices, when the rest of the world is inflating, but since 1945 British politicians have not seized every opportunity for resisting inflation. Beveridge came to see the havoc that inflation had wrought with the pension he had devised to be based on real national insurance and built up gradually over 20 years. (Mr. Crossman's scheme promises the same 20 year "build-up," but post-war politicians ignored Beveridge's advice and paid the pension earlier; it is unlikely that Mr. Crossman's 20 years would ever see the light of day.)[3] Over dinner in the Reform Club, where Colin Clark, Ralph Harris, Graham Hutton and I had met to discuss a letter to the Editor of *The Times* in October, 1961,[4] he talked to us of inflation, politics and pensions. He has become known as the architect of post-war social security, but he saw it as subordinate to liberty—a juxtaposition that has not always been observed by politicians who have traded on his name or misapplied his teaching.

Pensions are not merely a matter of actuarial calculations (of insurance premiums), rates of interest (earned by insurance funds) and life tables (calculations of the expected duration of life and retirement). They invade the

3. Chapter VI.
4. The main paragraphs are reproduced on pages 124–25.

whole of individual and social life: the treatment we mete out to present-day pensioners who could not save during their working lives (which covered the slump years of the early 1930's); the freedom we enjoy in providing for retirement by personal or occupational pensions, life assurance, buying a house, investing in national savings, Building Societies, unit trusts, stocks and shares; the effects of occupational schemes on relations between employers and employees, on industrial costs and on the supply of savings for investment in industry; not least, the political consequences of the periodic enlargement of national insurance which is no longer insurance but taxation, and its effects on incentives to work and save, on the public finances of government, on the power of politicians to rule our lives.

These are the essential issues. Yet for month after month discussion has been fogged by figures of "contributions," "benefits," "opting out," "partial abatement," and other financial or technical detail. The Government has not emphasised the importance of these less obvious but more fundamental aspects. The pension specialists in the Life Offices Association, whose members largely insure the medium-sized and smaller pension schemes, in the National Association of Pension Funds, which mainly represents the larger funds run by the larger firms and by public authorities, and in the Confederation of British Industry, which represents employers, have, perhaps naturally, been pre-occupied with financial calculation and assessment. But when the National and Local Government Officers Association (NALGO) spoke out in August, 1969, the prospective pensioners acquired a direct and vocal spokesman.[5] The wider, less immediate but more far-reaching repercussions have generally come second to individual financial effects.

It is to emphasise these far-reaching repercussions for readers as savers, taxpayers, electors and citizens that this book has been written. It will not go over the detail of how much pension for how much contribution individuals can expect by what date, if partially contracted-out or wholly participating, if male or female, married or single. These figures have been discussed in numerous newspaper articles by informed writers, notably Dryden Gilling-Smith and Richard Sleight. But they depend on projections, estimates and guesses by civil servants and undertakings and promises by politicians who may be senile or dead by 1992. And the figures, which look reassuringly solid when they are printed, can be changed a year or two after 1972, or even before the scheme starts, as in 1961.

5. On 9 January, 1970, a NALGO conference narrowly rejected a motion on strike action urged by 50 branches unless the Bill were revised to protect members' occupational pensions.

It is possible to agree with Mr. Crossman that his scheme would comprise a fundamental reform in British social policy. He argues it is necessary, desirable and overdue. This book replies that it is unnecessary, undesirable and out-of-date. I suggest that the last third of the twentieth century requires not more national insurance but less, not obstacles to private saving for retirement but encouragement, not aggrandisement of the State by still more taxation revenue for political authority to spend but emancipation of the individual by widening choice in spending and saving.

This debate cuts across conventional party divisions. In 1961 the Conservatives introduced a graduated pension scheme; in 1966 they said they would repeal it. In 1957 no trade union voice was raised against national superannuation; in 1969 trade unionists spoke up. The CBI supports the principle of relating national insurance contributions and benefits to earnings. Labour MPs are finding that their traditional supporters are showing strange symptoms of acting and thinking like middle-class, bourgeois capitalists with a stake in property and an urge to acquire more, although only one MP has had the insight to express in graphic words[6] what social surveys have been finding for years:

> the workers . . . have little enthusiasm for the expansion of the social wage at the expense of their individual wage packets. . . . In the last two decades their collective aspirations have waned and their individual aspirations have waxed.

Mr. Crossman's pension scheme would further inflate the social wage.

From *The Times,* 20 October, 1961: A More Humane Society Apportioning State Benefits

To the Editor of the Times

Sir,—At the Conservative Conference, the Prime Minister said that the Government was considering how the social services could be remodelled "to ensure that public resources are concentrated on those to whom they do most good, and that the benefits are not wasted by being dispersed too widely."

May we suggest that the Government should be thinking along the following lines:

6. Mr. Raymond Fletcher, *The Times,* 9 July, 1968.

(1) There should be no further increases in general social benefits; any further increases should be confined to people in need.
(2) Existing benefits paid to people not in need, and who have not earned them by contributions, should be reviewed. By definition, this would not involve either hardship or injustice.
(3) Assistance rates to people in need should be raised.
(4) More vigorous steps, including the use of the broadcast services, should be taken to ensure that all who need assistance know how to get it.
(5) People with adequate means should be required to pay for social services now supplied free or below cost. This should apply not only to health services but also to education, school meals, housing, libraries, and others.
(6) The resultant saving in public expenditure should be used to increase national assistance, strengthen neglected services (such as mental and child care), and reduce taxation.
(7) Methods of contracting out of the social services should be devised for those who are able and wish to provide for themselves.
(8) Excusing the relevant social insurance contribution, returning the notional cost of the service not used, allowing the cost of private service against income tax, and other methods of encouraging self-provision should be examined.

18 October, 1961

Yours faithfully,
Colin Clark,
Ralph Harris,
Graham Hutton,
Arthur Seldon

CHAPTER III

"Swindle"?

Before we go into all this more deeply, why "swindle"?

This is not my word. It has been used in Parliament by the politicians about each other's pension schemes: the 1961 graduated scheme and the proposed 1972 earnings-related scheme. (There is no essential difference between "graduated" and "earnings-related." "Graduated" means related to earnings. "Graduated" was used to describe the 1961 scheme and "earnings-related" the 1972 scheme.)

The word appears to have been used not in the strict legal sense of cheat but in the financial sense of (not) value for money and in the moral sense of deception. On 27 January, 1959, when the House of Commons was discussing the general principles of the National Insurance Bill, Mr. Crossman said:

> When we were discussing the White Paper it was still possible to have doubts. I think those of us—certainly this applies to myself—who on first reading described the White Paper as a counterfeit or bogus imitation of the Labour Party's plan were under-estimating how bad it was. On reflection, we now realise that if we were to call this Bill a swindle we would not be exaggerating.
>
> (*Hansard*, Cols. 993–4)

And he explained:

> It is a deliberate attempt to persuade the people that some improvement in pensions is being carried out and that, for instance, wage related pensions are being introduced, when, as has been conclusively shown by my hon. Friends, the whole aim and object of the Bill is a fiscal arrangement to reduce the Exchequer liability and to redistribute the burden of pensions so that it falls predominantly on the middle range of wage earners.
>
> (*Hansard,* Col. 994)

Ten years later, on 6 March, 1969, the former Minister of Pensions of 1959, Mr. John Boyd-Carpenter, replied to Mr. Crossman, who had introduced the January White Paper on "earnings-related social security":

> . . . in the financing of the scheme the right hon. Gentleman has adopted, as he admitted, the practice from the 1961 Act of applying to the payment of current flat-rate benefits revenue raised by contributions to a wage-related scheme. He will recall that one of his hon. Friends, with singular lack of tact, mentioned today that in his degenerate days he referred to that method of financing as a swindle.
>
> . . . if those who were responsible for that scheme were responsible for a swindle it was a very small peccadillo[1] compared with the scale of swindling operations for which the right hon. Gentleman is responsible. The operations of Savundra or Whittaker White appear as that of mere amateurs compared with the right hon. Gentleman if there ever were any validity in the charge which, with remarkable frequency, he used to make in those days.

Mr. Boyd-Carpenter went on to explain his charge:

> There is . . . a dodge in this scheme . . . It is the redistribution element. . . . The 1961 Act was, of course, weighted in favour of the poorest. But that was done openly and fairly by the use of the Exchequer contribution. . . . Each brick, each unit, of contribution brought and bought the same benefit no matter what point in the scale of earnings it related to. It had that element of an insurance scheme. But that is not so with this scheme. [He went on to explain that the pension would not be proportional to contributions.] How can the right hon. Gentleman describe that as a pension contribution?
>
> (*Hansard*, Cols. 742–3)

In this parliamentary exchange "swindle" seems to have referred to the misleading use of the word "insurance" to obtain contributions by pretending that they would pay for a state pension "related" to them and therefore to the earnings of which they were a percentage. Mr. Boyd-Carpenter maintained that the pension was related to contributions in his scheme but not in Mr. Crossman's. Mr. Crossman counter-charged that the real aim of

1. Rendered by Soule's *Dictionary of English Synonyms* as: "Petty fault, slight offence, petty trespass, slight crime." 1961 Edition, p. 378.

Mr. Boyd-Carpenter's scheme was not to devise a new pension scheme but to raise government revenue.

Later he seems to have thought more kindly of it; on 25 November he told a meeting organised by a trade union: "Pay-as-you-go was one of the few good things the Tories did." But Mr. Crossman's change of mind does not make it right. "Pay-as-you-go" may have been unavoidable (and politically convenient) for *past* pensions; it is not unavoidable for *future* pensions and it is politically obnoxious.

"Graduated" and "earnings-related" can be used in two senses: "strictly proportional" and "varying generally." Mr. Boyd-Carpenter claimed that his pensions were graduated strictly according to the contributions. Mr. Crossman can claim that his pensions would be related to earnings, but this would be true only generally, not strictly. So far, the charge of "swindling" they levelled at each other seems to be a matter of degree.

But on both sides "national insurance" conceals the true purpose. Both have dressed up government fund-raising as "insurance." The fundamental question is: since contributions, like taxes, are compulsory, why do politicians mount the charade of acting like insurance salesmen rather than tax gatherers? Because it is politically easier to raise funds by promising pensions in return? Here Mr. Crossman has been more candid than Mr. Boyd-Carpenter in confessing the politician's difficulty of raising taxes by calling them taxes. The "dodge" is not simply that *part* of the contributions are transferred from some contributors to others (the "redistributive element") but that the *whole* of the contributions are taxes called by another name that politicians hope would smell more sweet. It is the very practice of presenting "national insurance" as insurance rather than as a form of taxation that is objectionable because it is deceitful. That is the source of the national insurance "swindle."

Lord Robbins once caused Harold Laski offence by writing (of communism): "Lillies that fester smell far worse than weeds."[2]

National insurance might have been a good way to pay for pensions, perhaps better than general taxation. But nowhere in the world does it work like insurance. Everywhere it is abused. It is time to accept that there is something in the political control of insurance that makes it go bad. It might have been a beautiful flower. But everywhere—in Europe, America, Britain—it is festering.

2. *Economic Planning and International Order,* Macmillan, 1937.

CHAPTER IV

The Strain on Political Institutions

What is at stake is more than the virtues or vice of Mr. Crossman's brand of "national insurance," and whether it is morally more objectionable or less objectionable than Mr. Boyd-Carpenter's. The exchange of verbal gunfire in the recurring Parliamentary/political battle conceals a deeper *malaise.* It is the very repute and dignity of the Parliamentary institutions within which the party system operates, and the respect in which they are held by the British electorate and the outside world, not least in the former Dominions and Colonies, that are damaged by increasing resort to manipulation of national insurance, the politicians' solace and opiate.

The damage to British political institutions is all the more severe from policies that subject the politicians to pressures that no fallible human can resist. Such a policy is the use of national insurance, at first from 1925 until 1948 in apparent good faith, but lately in barely more than name, to raise tax revenue in return for pensions to be paid for by people decades ahead who are not consulted and whose wishes cannot be foretold.

On paper the state could run an insurance system no less than private organisations, with some advantages and drawbacks, but with a fund of accumulating income and interest out of which to pay the pensions. This was the intention until as late as the Beveridge Report of 1942. But *in practice* the pensions promised outrun the contributions; pensioners increase in numbers; living standards rise; prices rise; the fund runs out; general tax revenue has to be mobilised; then, to avoid unpopularity or to win votes, the insurance system is itself prostituted by increasing current pensions and raising the revenue for them by enlarging the contributions beyond the sums required; finally, to placate *future* pensioners, contributions are varied with earnings in return for pensions in the future. Hence the birth of "graduated" (Conservative) or "earnings-related" (Labour) pensions. They are no more glorious, no more compassionate, no more imaginative than that. Their origin is prosaic, commonplace, perhaps mercenary, but nevertheless urgent and unavoidable: the Government's need for money—more money than it can raise by ordinary taxation. To make the promises persuasive, complex formulae tie the pensions to prices, earnings or both. And to demonstrate the solemnity of the undertaking, actuarial spells are intoned and Acts of Parliament gravely commit people yet unborn and governments yet unformed.

C'est magnifique; mais ce n'est pas l'assurance. A government may properly tax its working/earning citizens to provide for its old people; but it should do so without assurances of specific rewards, returns or benefits. There is an understanding, or an expectation, that the State will continue to defend its citizens from external enemy, internal civil commotion, catastrophic fire or flood, supply street lighting in the towns and cesspool drainage in the country. But no government can guarantee that its citizens will receive £24 11s 8d a week for a couple or £14 7s 10d for a bachelor, spinster, widow or widower if average lifetime earnings were £48 a week by 1992. The actuarial projections for the 1946 and 1961 schemes now make sad—or comic—reading.

Governments and politicians reduced to such devices cannot hope to command the respect of the populace that sees their pompous promises unceremoniously reviewed or revised or abandoned year by year. There is a telling parallel. Inflation of the currency remains controllable so long as it appears to be controlled and temporary. When it accelerates without end it becomes uncontrollable because it forfeits belief. When politicians make promises they do not keep, they may be forgiven for a time; when they make promises for others to keep, they are sooner or later distrusted and discredited. Each generation reviews afresh the obligations it inherits. It honours those it approves in the light of its circumstances, mores and aspirations. Tradition, caution, cultural inertia may continue outward forms and peripheral practices. They will not ensure the satisfaction of costly financial undertakings made 20, 30, 40 or more years previously to ease the passing embarrassment of politicians who shirked unpalatable decisions for fear of losing power.

This is what is now threatened. The real reason for full, "earnings-related" pensions in 1992 is to raise money in 1972 for a diminishing minority of poor pensioners born in 1907, 1897 and 1887. It is *not,* as Mr. Crossman claims, primarily to prevent a fall in the living standards of people retiring after 1972 who, although earning enough to maintain their standard in retirement, would fail to provide for it unless ordered to "contribute" to the State's "national superannuation." It is *not* to ensure that pensions rise with living standards before and prices after retirement. It is *not* to ensure that pensions are preserved on a change of job. It is *not* to provide more generously for people who retire before 1972, or for widows, or married women at work. *None* of these requires compulsory, universal, earnings-related "national superannuation" benefits. Nor do they require earnings-related contributions.

The main objective—more generous pensions for retired people in need—requires more taxation, a rechannelling of current expenditure to people in need, less government expenditure, or all three. These solutions government has shirked. Instead it is tempted to raise revenue by calling additional forced levies "national superannuation contributions" and committing their successors to repay them in pensions. This practice would not be new in 1972. Nor was it new in 1961. It has been going on since 1946, when the Government ignored Beveridge's advice on building up pensions gradually out of contributions. For 20 years or more British politicians have promised larger pensions than contributions could support. The temptation to raise taxation without tears has been too strong. Even men of high principle have succumbed. But a dodge it remains. It is in this sense a pretence, a deception, a fiction, a "swindle."

It is no defence to point to other countries that practice similar deception. In almost every country where national insurance was begun, ostensibly to ensure income in retirement, it has degenerated into a political device for very different purposes: to save them from financial embarrassment or further the ideology of politicians temporarily in power.

All who care for political democracy—not least British Parliamentarians of all parties—must be alarmed by the damage to British political institutions and the integrity of British political life wrought by the intensifying resort to "national insurance" as a substitute for taxation. It must transcend the financial conundrum of finding money for existing pensions.

There is some evidence of the unease. In the House of Commons on 4 December, 1969, Mr. Douglas Houghton, Chairman of the Parliamentary Labour Party and Minister for the Coordination of Social Services from October, 1964, to early 1967, rebuked both Front Benches, as a Conservative speaker later described it:

> For the sake of the prestige of, and confidence in national insurance I hope that we will stop talking about "the Tory swindle." It is not good for national insurance and does not happen to be true . . . the truth is that the 1959 scheme [begun in 1961] was redistributive, but the Tories of the day dared not say so. They pretended that the graduated contributions were value for money when they were not. But the scheme as a whole was value for money. I am always surprised that the Tories let that label stick.
>
> (*Hansard,* 4 December, Cols. 1804–5)

He explained his exoneration as follows:

> The scheme as a whole is value for money today. There is no deferred annuity of the level of the national insurance pension which can be bought in the market for the price paid by the insured person in the scheme. That will be true of the future as well.
>
> (*Hansard,* Col. 1805)

This exculpation of Mr. Boyd-Carpenter makes a further distinction between the poor financial return on the graduated contribution, which repeats Mr. Crossman's criticisms, and the good financial return on national insurance contributions as a whole. Mr. Houghton did not say why he thought the national insurance pension was good value for the contribution and, he implied, far better than could be obtained in any occupational pension scheme. This may be true for older men nearing retirement; and on paper the state could give very good pensions. But in practice there is a fundamental difference between state pensions and private ones bought in the open market. On a long view it would be surprising if, in a working life of 40 to 45 years, annuities deferred to retirement could not be better at recent high rates of interest. (Of course, if a man moved between several jobs, he would benefit only if he carried his accumulated pension wherever he moved.) It is the interest earned on invested pension funds that enables occupational schemes to give very high pensions. The power of interest to make savings grow can be illustrated most simply by example: £100 earning 7% a year will double in 10 years, earning 10% in 7 years. Occupational funds have been gradually raising their earnings for 15 years or more. It is true some have been slow because they were uncompetitive or over-cautious, but they have gradually followed the more enterprising. The pension fund run by one large British firm[1] has earned around 10% a year for some years from investment in industry, and its pensioners have benefited accordingly—much more than a government can be conceived to pay out of what are normal contributions and taxation. This is perhaps the most prolific, profitable and prosperous pension fund known in Britain. But it shows that very profitable investment at very high yields is possible. State pensions are not closely comparable with occupational pensions because each has ancillary features the other may lack: for example, state pensions are more easily transferable and have given widows' pensions more generally; occupational schemes commonly carry life assurance on death before retirement and often lump sums

1. Imperial Tobacco; the pension fund has been managed by George Ross Goobey.

on retirement. But I doubt whether the State could ever match the best of the occupational schemes.

Mr. Houghton's anxiety was echoed by a Conservative Front Bench spokesman, Mr. Paul Dean:

> I hope that we have for all time got rid of this dreary argument about the Tory swindle.
>
> (*Hansard*, 4 December, Col. 1825)

Mr. Dean, who normally speaks with informed good sense on medical care and pensions, seems to have missed Mr. Houghton's distinction which, right or wrong, repeated Mr. Crossman's condemnation of the 1961 graduated pension. But whatever the balance of argument on the financial aspects of the 1961 and the proposed 1972 schemes, even if Labour and Conservative spokesmen now agree on whether or not there was or is going to be a "swindle," the political repercussions remain, and cannot be suppressed, because they have become part of British history.

Beveridge was more aware of the dangers of "national insurance" than the politicians who first praised and then condemned him as outdated when they sensed that the disciplines of the "flat-rate" contribution and pension would cramp their efforts to attract electoral support by raising government funds faster than they could spend the revenue they levied by taxation. But the "contribution" principle was questioned when the Beveridge Report was barely translated into the legislation of 1946 and 1948 that created the post-war welfare state. In 1950 an American study pointed to the deceptive labelling of "national insurance" that, if perpetrated by private industry, would have brought down the moral condemnation of the mass of British *literati* and social observers. It said:

> adoption of the term "insurance" by the proponents of social security was a stroke of promotional genius. Thus social security has capitalized on the goodwill of private insurance and, through the establishment of a reserve fund, has clothed itself with an aura of financial soundness.[2]

In the proposed 1972 scheme, although a surplus of contributions over outgoings is envisaged in the early years, it is not considered an essential element of the scheme, which is designed to pay out substantially all the income it receives in each year. And this procedure is rationalised by supporters of

2. L. Meriam and K. Schlotterbeck, *The Cost and Financing of Social Security,* Brookings Institution (Washington), 1950.

"pay-as-you-go" who applaud the absence of a fund and of the financial restraints on political control.

In 1952 Professor Alan T. Peacock concluded from a study:

> it is difficult to regard British national insurance as genuine "insurance" in any strict sense of the word . . . as it is compulsory and there is no adjustment of premium to risk.[3]

He emphasised "the misleading analogy between private and national insurance." This analogy is again exploited in the current debate on the Crossman 1972 pension scheme.

In 1953 Dr. Colin Clark, until recently of Oxford University, wrote:

> governments, both Labour and Conservative, have been promising old age and widowhood pensions of a value far beyond actuarial contributions . . . no government . . . put even inadequate contributions into a proper reserve fund, as any prudent administrator of an insurance scheme would do, but spent the money as fast as it came in . . . political parties . . . have been guilty of promising pensions which they knew could not possibly be paid out of the contributions received.[4]

Dr. Clark has left England for Australia after years of fertile and fearless teaching and writing that brought him no recognition or honours. But he has done Britain more good than if he had compromised with what politicians thought "politically possible."

Other Western countries have introduced, developed and inflated national insurance, with results that can be seen in Germany, Sweden and elsewhere in Europe. Some people in the USA would follow the same course and take—or welcome—the same risks of uncontrollable political power, unnecessary taxation, the inhibition of independent insurance, private saving, and capital for industry, and the standardisation of social life.[5] In Australia, which continues to resist national insurance, and New Zealand, which has recognised the impracticability of segregating social security from general tax revenue, voices urge the same errors that have been made "in socially more advanced countries." Mr. Crossman quotes earnings-related national insurance in other countries as examples for Britain to follow. They are lessons on what to avoid.

3. *The Economics of National Insurance,* Hodge, 1952.
4. *Welfare and Taxation,* Catholic Social Guild, 1954.
5. Chapter XIII.

CHAPTER V

How It All Began

Little sense will be made of the debate on pensions in the coming months if we cannot see the ultimate objective of it all. There is little point in examining proposals, plans, statistics and projections if we do not know where we want to go, or whether they will lead us there. We must refuse to be confused, bemused or diverted by detail. We must insist on knowing where the politicians are leading us.

The hard-headed, practical, common-sense, "pragmatic" man is inclined to dismiss objectives with the obvious truth: "we must start from here." That is only a beginning. It is more important to know: *Where do we go from here?* Movement "from here" has no virtue in itself. If it is to be better than staying put, it must shift us nearer where we wish to go.

The tragedy of much British social policy, not merely for the quarter of a century since Beveridge and 1948 but for a whole century since the Forster Elementary Education Act of 1870 which introduced the State directly into the *provision* (in contrast to the *financing*) of schools, is that it has started "from here" *but has largely led away from where we want to go.* It has tackled immediate social abuses or shortcomings in an apparently humane, workmanlike, practical manner, but left a legacy of undesirable effects that have not merely plagued succeeding policy-makers, but, more important, frustrated the children, grandchildren and great-grandchildren of the very people it was designed to help. It has comprised a series of first-aid treatments that have inexorably debilitated, inhibited and disabled the patient. Now, after 100 years of increasing state education we are told that parents are incapable of choosing schools; after 55 years of rent restriction and increasing council house building they are unpractised in selecting a home; after 35 years of national insurance pensions millions have no personal or occupational pension; after 22 years of the National Health Service they must not be allowed to pay for medical care more than they can be made to pay in taxation. Earnest, well-intentioned, troubled, burdened, but also voteconscious, short-sighted and sometimes misinformed politicians have tackled urgent "problems" and devised solutions to satisfy their consciences, their parties and public opinion. But it is their occupational hazard that they cannot look very far ahead. In doing what good can emerge from the maelstrom of principle, expediency and opportunism that is the stuff of party politics, they have often done harm to people, society, the economy and political institutions in the years that followed. Economists have lately studied, and become alarmed at, the "social" (as distinct from the "private") consequences of industry in congestion, pollution and noise. The social consequences of politics last for decades. In *Julius Caesar,* the supreme analyst of human nature makes Mark Antony say:

> The evil that men do lives after them,
> The good is oft interred with their bones . . .

We like to remember the best in our politicians, but the worst is often not known until long after they have passed on. Any good they do in their lifetimes is usually apparent; the evil they do is not known for long years and is often buried in undocumented human experience.

We must "start from here," but we must know where we are going. If we cannot agree where we want to go, at least those who do not want to go where governments want to lead us, and who think the people would not want to go there if they knew, can in a democracy say so, and hope to persuade them to change direction. And governments will have to listen.

This conflict between good intentions and the harmful consequences arising from the anxiety to do something about pressing problems is vividly exhibited in the history of British pension policy. Before it is examined more closely let us note the main objectives of pension policy in a civilised, liberal, democratic and increasingly wealthy community.

First, above all it would desire to ensure as high a standard of living as possible to those of its old people who could not in their working lives save sufficient for their retirement.

Second, it would allow and encourage people to save for retirement as much as and how they wished, provided they did not frustrate the desire of others to do so.

Third, it may require them to save at least enough to avoid dependence on more thoughtful people who have saved more. Since earnings normally vary widely, and the amount of saving people think desirable varies with their judgement on how far they wish to enjoy their earnings while young or middle-aged and how far they wish to ensure comfort, security and tranquillity in their later years, they may save very different amounts. The community would not set a ceiling on how much they saved, whether, say, half, two-thirds, as much as, or more than, they earned in their last few years of work. A person may "need" less after retiring, but he has leisure to spend more to do all the things he could not do while he worked. At 65 a man can expect to live for 14 years to nearly 80; a woman of 60 can expect to live 19 years to about the same age. For perhaps at least the first 5 or 10 years they can lead a more varied and interesting life than before. Retirement is retirement from work, not from life.

British politicians have had to accept these inalienable rights and irrepressible differences in human nature: although many of them still urge equality in education and medical care there is no pretence that everyone should retire on the same pension and Mr. Crossman has evolved a new theory to rationalise this inconvenient obstruction. Indeed Mr. Crossman's scheme would *force* most of them to save *different* amounts through the State, thus perpetuating "social divisiveness" in retirement.

How far have these objectives of a civilised, democratic and increasingly wealthy society guided British pension policy?

A century ago people in Britain did not accumulate pensions. Some were rich enough to dispense with them. But most had no retirement. They worked until they died, some in their forties. If they lived longer but could not work they were supported by their families, by Friendly Societies through which they had saved small sums, by charity, or by the local authorities; these gave them cash, food and clothing, and shelter in a "workhouse" or care in a hospital infirmary.

Since the 1850s economic advance, social improvement and medical science have lengthened the expectation of life at birth from 30 or 35 to around 70 (a little less for men, a little more for women). In 1840 there were 800,000 people over 65 in Britain out of 18½ million, or only 4½ per cent. By 1900 there were 2¼ million out of 37 million, or 6 per cent. Now there are over 7 million out of 54 million, or 14 per cent. A century ago many people died before they could retire; now most live on well after retirement. In 1850 or 1870 there was almost no problem of income in retirement; now retirement is a 15-year- or 20-year-long phase of life to which many people look forward with pleasure and anticipation (see figure preceding Table A, p. 138).

Most of this improvement has taken place since 1900. The expectation of life (at birth) was then still only 45 to 50. But more people were surviving into their 60's and 70's. The problem was that many had little or no certain income from private sources.

In the 1890s social reformers increasingly thought that the State would have to step in. And it did. A Royal Commission in 1905 recommended state

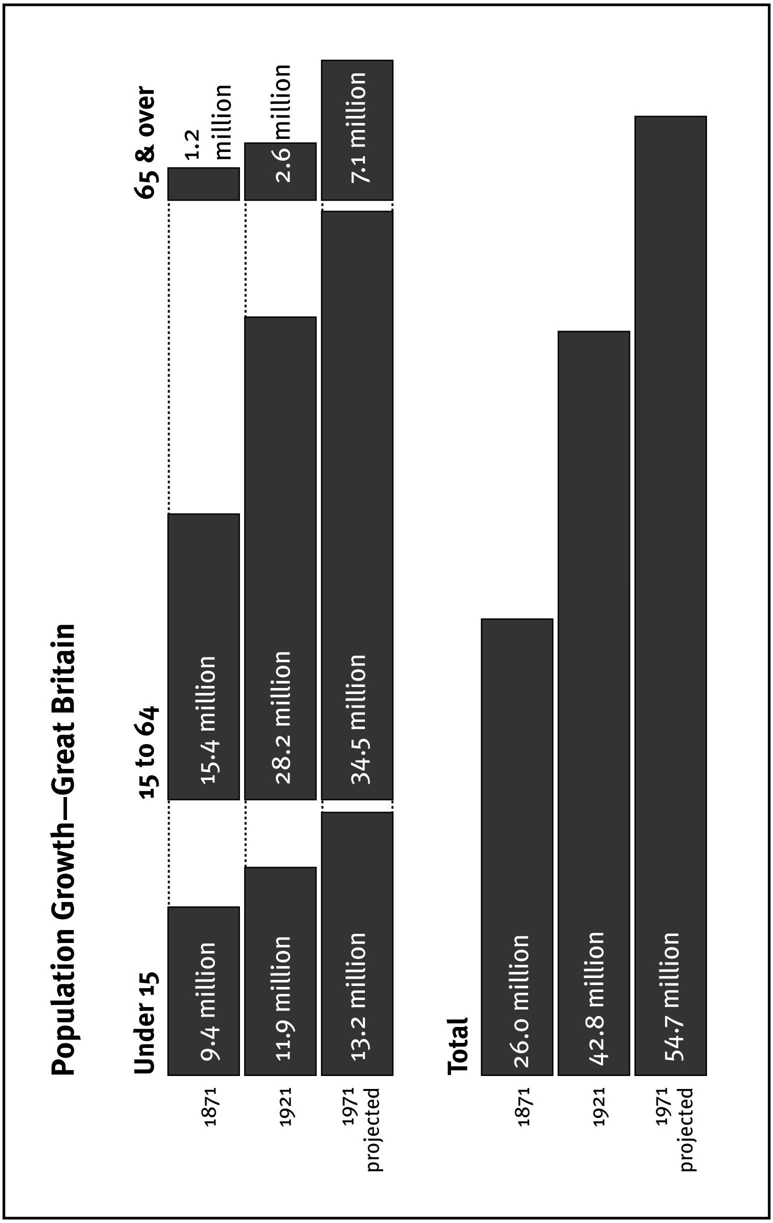

Population Growth—Great Britain
Under 15
15 to 64
65 & over
1871
9.4 million
15.4 million
1.2 million
1921
11.9 million
28.2 million
2.6 million
1971 projected
13.2 million
34.5 million
7.1 million
Total
1871
26.0 million
1921
42.8 million
1971 projected
54.7 million

Table A. Population—Great Britain (millions)

Year	Under 15	15–64	65 and over	Total
Censuses				
1861	8.3	13.8	1.1	23.1
1871	9.4	15.4	1.2	26.0
1881	10.8	17.5	1.4	29.7
1891	11.6	19.8	1.6	33.0
1901	12.0	23.2	1.7	37.0
1911	12.6	26.1	2.1	40.8
1921	11.9	28.2	2.6	42.8
1931	10.8	30.7	3.3	44.9
1941 (war: no census)				
1951	10.9	32.6	5.3	48.9
1961	11.9	33.3	6.0	51.3
Projections				
1971	13.2	34.5	7.1	54.7
1981	14.1	35.9	7.9	57.9
1991	15.4	38.2	8.1	61.8

The figures are rounded to the nearest decimal, so that the total may differ slightly from the sum of the items in each year.

aid and Lloyd George introduced the Old Age Pension of 5s a week for a man or woman of 70 with inadequate other income. In 1909 580,000 old people drew £7.5 million. In 1920 the pension was raised to 10s where it remained until 1946.

Thus far the State paid the pension on a means test and out of taxes, and the method made good sense. Everyone contributed to its cost roughly according to their capacity to pay, and the pensions went to people in most need. There was argument about the size of the pension and the age at which it should be paid, but the principles governing who should pay and who should receive were clear and civilised. There was debate also about the distribution of taxes (indirect taxes on purchases weigh more heavily on people with lower incomes).[1] But the Old Age Pension, paid by people who could pay and received by people who should receive, was like Portia's gentle rain

1. Dr. E. G. West argues in *Education and the State* that if working men had paid lower taxes they would have been able to pay for at least part of the "free" education (and other social services) the state created for people who could not pay; that is, the state was taxing people to provide services for people who in large part could not pay *because* it taxed them!

from Heaven in *The Merchant of Venice:* it "blesseth him that gives and him that takes."

In 1925 there came a big change. The 1908 Old Age Pensions were to continue to be paid out of taxation, but there would be new Old Age Pensions based on national insurance. The 1908 pension required no "contributions" from the pensioners. The 1925 pension would be paid to men and women at 65 who earned them by their contributions from wages and from their employers. There would also be some help from "the Exchequer" (that is, the taxpayer), but only in the early years. The Government Actuary calculated that if the contributions were raised three times every ten years and invested they would generate enough capital and interest in 30 years to pay for the 1925 pension (and for the 1908 non-contributory pension) by 1956. But the essence of insurance—that the fund is built up before the pension is paid—was thrown overboard. The pension was paid before enough had been accumulated and the deficit was to be covered by an Exchequer grant (£4 million for ten years).

In 1946 when the pension was raised from 10s a week to 26s on Beveridge's 1942 recommendation, much the same happened. Again, the contributions required for the pension were calculated actuarially. This time the Exchequer Supplement was fixed at one-sixth of the contributions. Again the insurance contribution principle was ignored, despite Beveridge's advice that the pension be built up over 20 years (a period that recurs in the Crossman Scheme).

Why 20 years? The main reason is that that is how an insurance system is run. The contributions mount up into a fund which is invested and used, with the interest it earns, to pay the pensions as they fall due. And for the particular reason that after the war there were bound to be large demands on government revenue for at least a few years and it was desirable to keep down the cost of pensions. If the contributory pensions had been paid at once they would have gone to *all* pensioners—then about 5 million, whatever their age and whether they could be regarded as in need or not. To limit the cost therefore meant confining an increase in pensions to people in need, and financing it for general taxation.

Beveridge made these two reasons clear later.[2] The acceptability of his Report turned on the financial cost of his proposals, especially for pensions for people in or nearing retirement. The Beveridge Committee started work in July 1941. By the summer of 1942 it was seen to be envisaging a financial re-

2. *Power and Influence,* Hodder and Stoughton, 1953.

construction of social security rather than an administrative in-filling. In July the Treasury became interested, and

> There followed a series of discussions and interchange of notes, between Keynes,[3] Robbins,[4] Epps[5] and myself, with the finance of the scheme coming ever more clearly to depend on what we did about pensions for those already at or near the pensionable age.

This problem of paying current pensions is the bug-bear of pension policy reform. No politician has yet found the solution except by promising pensions for *other* people. It is the problem from which he runs away, as Mr. Crossman is now doing.

On 12 August Beveridge made what he called a "deal" with Keynes:

> The gist of the deal was that Keynes promised to support my Report if I would keep the additional burden on the Treasury down to £100,000,000 a year for the first five years; after that, he said, the Treasury should have no difficulty in meeting rising charges. I found myself able to satisfy Keynes's condition for support, provided that I spread the introduction of adequate contributory pensions over a substantial period of transition. I wanted to do this *in any case* . . . (my italics)

Why "in any case"?

> It seemed to me right to make pensions as of right . . . genuinely contributory; for pensions there must be a substantial period of contribution.

The "substantial period" he recommended in the Report was 20 years. This advice was ignored, how far for political, administrative, "stigma" or other reasons we shall never know. But what about current pensioners?

> Those who were already nearing the pensionable age would have to be covered, and could rightly be covered, by assistance pensions subject to a means test.

But the 20-year contribution period was not honoured.

> The deal depended on a long transition period for pensions as of right. That has not been applied in practice. Our deal went west.

3. John Maynard Keynes, 1883–1946, the leading economist of the period, then an adviser at the Treasury.

4. Now Lord Robbins.

5. Sir George Epps, the then Government Actuary.

And he concluded sadly:

> When the Report had been made it passed . . . into the hand of men exercising or seeking political power. This proved . . . a less pleasing world.

The result of ignoring this advice? Failing to build up pensions slowly and in the meantime paying pensions only to existing pensioners in need meant a rapid accumulation of insurance deficits. Instead of enough money to pay all pensions in 1956, or about £15,000 million, there was only £1,500 million, or a tenth, in the National Insurance Fund. By 1970 the deficit must be over £30,000 million, or about as much as the whole of the National Debt. Again one can imagine the outcry that would have been created by the *literati,* spiritual leaders and social workers if such a blunder had been made by insurance companies. They would have condemned "the commercial capitalists" as irresponsible, callous and defaulting enemies of old people in particular and society in general.

But who now blames "the men of 1946" for irresponsible, callous default? At least the insurance offices have no power to force people to insure with them. The men of 1946 had power to force everyone to insure with them. Of course, luck was against them. The slump of the 1930s had reduced the contributions; the war of 1939 to 1945 and post-war inflation and rising living standards among the working population made it necessary—and politically attractive—to raise the pensions.

But was there no bad management? Was the National Insurance Fund invested wisely? It was not. It was used as an instrument of government financial management to buy gilt-edged securities. And by governments of both parties. This is a telling example of the irresistible pressures on them to take a short-run view and deal with an immediate problem, like Charles Dickens' Mr. Micawber, in the hope that sooner or later something would turn up to save the day—or at least the government's face. Pensions are the graveyard of the politician's reputation. Even the great Winston Churchill offered widows' pensions in 1926 far in excess of the value of the contributions and despite warnings from the Government Actuary. Even the high-principled Hugh Gaitskell tried to explain away the 1946 failure by arguing that 20 years was a long time to wait and that the general public would not have approved an increase in other national insurance benefits without a parallel one in pensions. Now Mr. Crossman is proposing a new kind of pension with a 20-year build-up and is trying to persuade us that the promises he makes in 1972 will be kept by politicians and taxpayers in 1992.

Well, anything is *possible.* Gaitskell's explanation, or excuse, must be examined closely. If trouble is built up for future politicians, taxpayers, social insurance contributors and pensioners, can a politician be forgiven for short-sighted policies by passing the buck to public opinion? If it was right to pay the higher insurance pension immediately, was it not the politician's duty to explain to the general public that the only way to do so was to levy higher taxation, politically unpopular though this may have been? If higher pensions are desirable for old people in need, is it essential to give it to everyone, politically popular though the course may (or may not) be? Was the purpose in 1946 to protect old people from seeking the then National Assistance and its supposed Poor Law stigma? Was the purpose to further the political doctrine of equal state pensions no matter what differences there were in needs, means or other individual circumstances? Or was it, simply, understandably, but cynically, vote-catching?

Historians will debate the motives that determined the decisions of 1946. They may never distinguish the real reasons from the excuses. But public opinion must now weigh up a similar battery of motives, promises and probabilities that underlie the Crossman pension proposals of 1970. What is clear so far is that history is not on his side.

Moreover, there is a large difference. At least until 1946 there was the intention to base the pension on a fund of national insurance contributions with some assistance from "the Exchequer," the contributors being able to say that they had paid for the pension in much the same way as the owner of a private insurance policy who accumulates a pension or buys an annuity. The pensioner is then dependent on a fund of accumulated premiums (or contributions), topped up by interest and perhaps an increase in capital values resulting from careful, clever investment. He may suffer from bad luck or bad management, but he is not dependent on politicians or taxpayers 20, 30 or 40 years in the future.

Since about 1957 this pretence has been abandoned. Mr. Crossman had the clarity of insight, the academic urge and the *Realpolitik* to see that what his political mentor and coadjutor, Aneurin Bevan, had described as a myth and "bunkum" could no longer be described as a reality. The National Insurance Fund, which by 1957 had about a tenth of the capital sum "projected" in 1925, could never be reconstructed sufficiently to pay the state pensions. The future accumulated state pensions could never be "replaced"; they would have to be based on annual assessments: each year the cost of pensions would be assessed and the contributions calculated accordingly. The actuaries call this system "assessmentism": public relations men and politicians have tried the seductive but deceptive "pay as you go." I think the prospective pensioner must call it "pray as you pay": for his contributions do not go into a fund, but, like the proverbial Epsom Salts, straight through the system and out. There is no systematic fund, no profitable investment, no interest and no capital growth. There is Mr. Crossman's (and his colleagues') assurances and undertakings, that politicians and taxpayers unknown will pay the pension in 1972, 1982, 1992, 2002, 2012 . . .

There can be two opinions about whether "pray as you pay" is more or less secure than funding. But there can be no doubt that it is very different. The difference can be minimised or exaggerated. The funded pension may be said to rest on a financial fund of invested contributions; and the "pray as you pay" pension on a political fund of goodwill from the younger and middle-aged of, say, the 1990s to the older people of that decade. But Mr. Crossman is not sure about it himself. He has had to abandon the insurance principle but wants to go on calling it insurance. Indeed, he says he wants to re-create the insurance system by replacing taxes with social insurance contributions which create a real claim to a pension. Sometimes it is called "the contract of the generations," "a contract no Chancellor can ignore"; sometimes a "semi-contract."

Is this a loss of faith in the political "social contract" in which taxes paid into a common pool during the working life pay for pensions drawn from the common pool in retirement? Is it a return to the notion that the right to the pension is not secure unless it is based on a *financial* contract in which identifiable and recorded contributions pay for identifiable and recorded pensions? If so, are "contributions" paid out almost at once any different from taxes? Do the contributors see them differently? Have the contributors been told, honestly, frankly and sincerely, in the Prime Minister's phrase, that this sort of "national insurance" is very different from the insurance they know? Do they understand the difference between the funded pension based on a *financial* fund of investments and the "pray as you pay" pension based on a *political* fund of promises, undertakings, assurances, understandings?

CHAPTER VI

Crossman's National Superannuation

Politicians who condemn economic activity outside the State—private enterprise, "capitalism"—covet and capitalise on its institutions, practices, even language. "Insurance," "contract," "fund," and "saving," which have well-known meanings in private industry, have been used to advocate *national* insurance and national "superannuation." Why? Because they are trusted by the people. The advocates of state control have tried to cash in on them.

Consider each of the three words in the grandly-named National Superannuation Fund in the 1969 Bill. Even the use of the word "national" is misleading. It is meant to convey an impression of wisely-inspired, public-spirited, "official" good intention to take care of people in old age. It recurs in "in the national interest." In practice, it means *state* insurance and superannuation or *government* insurance and superannuation run by politicians, civil servants and public officials. Their intentions are usually, or sometimes, good; their performance is not necessarily good and is often bad. And it is by their performance that we must judge them.

Then, "superannuation." Another splendid word much used by governments that *sounds* much more impressive than "pension," which private schemes are usually content with. But it is not as good a word; it is more grandiose and pompous but it has much less reputable connotations. A "pension" is an allowance or annuity, that is, a form of income. To be "superannuated" can mean to be on the retired list but also

> decrepit, anile, aged, imbecile, doting, antiquated, effete, rusty, time-worn, disqualified, unfit for service, *passé*.[1]

Not least, "fund." There's a comforting word, rather like nest-egg, reserve, savings, property, a word designed to convey reassurance, peace of mind, a sense of security. "Fund" normally means a stock of money or assets care-

1. Soule's *Dictionary of English Synonyms.*

fully accumulated, set aside and ready for specific purposes or perhaps to meet emergencies. But the National Superannuation Fund is not a fund in this sense. It is a tank, filled by contributions by one pipe and emptied almost at once by pensions out of another pipe. It is not even a reliable tank, with a more or less constant level of water. It goes up some years, down other years, almost dry in some periods, almost overflowing in others. The contents may be taken out for purposes that have little to do with pensions. And it would be at the mercy of politicians often at their wits' end to find money for quite different purposes. What sort of "Fund" is that?

"National superannuation" was invented in 1957 by Mr. Crossman with the assistance of academics described as "social administrators," a species of sociologist.[2] Sociology covers a wide range of studies, from rigorously scientific at one extreme to extremely sentimental at the other. Mr. Crossman's academics have deployed sentimentality that often seems to dominate the science. Sociologists of this kind "care" about the "under-privileged" (a nonsense word if you examine it closely: if privilege is bad, people who have less than others should not be helped to have more—except on the equally nonsensical supposition that anything is good if it is owned equally). In this branch of sociology "compassion" infuses thinking to the point at which almost anything is justified by good intentions—inadequate statistics, faulty reasoning, unstated assumptions, selective evidence. This is almost as objectionable as the Marxist notion that the ends justify the means. Certainly this kind of sociologist, of whom there are many in British (and overseas) universities (whose former students sometimes bemuse social policy overseas), misjudges human nature, does not understand the working of economic systems, and is out of sympathy with the aspirations of the rising working man (and woman) to the point of contempt.

These faults show in the development of "national superannuation" from a conference resolution in 1955 to the White Papers and the National Superannuation and Social Insurance Bill of 1969.

The 1955 resolution led to the 1957 report *National Superannuation,* described as Labour's Policy for Security in Old Age. It argued that there were two nations in old age; those with an occupational pension in addition to the state pension and those without. So it proposed that everyone should be required to save through the state for a pension related to his earnings. People with a good occupational scheme might be allowed to contract out, although on terms that were ominously vague and that could not be so favourable that the state scheme would be endangered. (Is it not remarkable

2. A Note on Sour/Sentimental Sociology, page 221, Appendix B.

that politicians, who are servants of the people even when they lead them, think of themselves as "allowing" people to have liberties? No true servant of the people would make that mistake. But the habit of thinking of the people as subject rather than sovereign has grown for so long that the mistake is made by politicians of all parties.)

The document also revealed the strange ambivalence in Mr. Crossman: clear thinking and academic candour disfigured by dogmatism that brushes aside unwelcome argument and evidence, and an undemocratic disposition to dismiss the aspirations of the people for whom he "cares." Hence the sometimes engaging and sometimes disagreeable gallimaufry of almost embarrassing frankness and stubborn obscurantism. "Pension rights must not become . . . subject to the whims of politicians," said *National Superannuation.* But the new graduated pension was not designed to have a financial fund, as those on which occupational schemes are based. Then what was to be the pensioner's guarantee? ". . . confidence can be placed in the survival in perpetuity of a government in Britain." From a political scientist of Mr. Crossman's stature, this is a claim that not everyone will accept without a lot of convincing argument and evidence. If government is a continuing entity it is also supreme; if it can keep its word, it can also break it. "The State," said Aneurin Bevan in 1954, "is a sovereign body and can alter the terms of the contract when it wishes without asking anybody. It did it in 1931, and it has done it over and over again." British politicians have hardly always honoured their promises.

Observers must speculate about the motives of politicians. They are not demi-gods, but fallible beings who must be continually put in their place. Mostly they are a mixture of good, bad and middling, a *pot-pourri* of altruistic idealism and selfish lust for power; men no better when out of office than the rest of us. No doubt the wish to see the poorer with higher pensions was one aim of *National Superannuation.* But other consequences would follow. One was that a lot of money would be collected in graduated contributions from the higher-paid that would be more difficult to raise in taxation: so electoral unpopularity would be avoided. Second, the National Insurance Fund would be kept going with some semblance of the insurance principle, although Aneurin Bevan had clearly stated the truth in 1954:[3]

> There is no such animal as "the Fund." It does not exist. It is a pure myth. . . . Let us get behind these figures to the economics of the situation; . . . let us get rid of this bunkum about insurance.

3. 9 December, 1954. *Hansard,* Col. 1152.

Third, the contributions would yield so much more than required for pensions that the surplus would for a time form a National Pension Fund to be invested in industry. With what purpose? To increase production so that the pensions could be paid without depressing the standard of living of future generations, said Mr. Crossman and the sociologists. On paper, impossible to deny. But in practice a distinguished Labour banker, the late Lord Piercy, showed that in several countries the funds were often used to support government borrowing, and the interests of the "national insurance" policyholders took second place. (Another sidelight on the astigmatism of politicians: when private firms borrow their pension funds they are denounced with fine moral fervour. Sauce for the state goose is poison for the private gander.)

Whatever its trimmings, National Superannuation, vintage 1957, was not so much national insurance as redistributive taxation. This was its Achilles Heel, as it is the Achilles Heel of National Superannuation, vintage 1970.

But as Mr. Crossman did not acquire political power until 1964, nothing came of National Superannuation 1957. Instead 1961 brought a modified version in Mr. Boyd-Carpenter's scheme of graduated state pensions. The National Insurance Fund was running relentlessly into the red and money had to be found somewhere or other. The main purpose was to find more money for existing pensions, so the scheme was decked out with implausible excuses of which the most uproarious was that it was intended to encourage the development of occupational schemes. The main principles were much the same as in National Superannuation, except that there was a bad official under-estimate of the number of employees who would be contracted out: instead of 2¼ million, over twice as much, or about 5¾ million. In all, this scheme will comprise no more than a short, inglorious page in British social history. The Conservative Party said in 1966 that it would be abolished; the Labour Party proposes to scrap "graduation" to make way for bigger, and hopefully better "earnings-relation."

The episode provokes a fundamental reflection: what if the Conservatives in the years from 1951 to 1964 had concentrated on providing generous state pensions for people in most need and helping occupational or other private pensions to expand, so that by now almost everyone who wanted a private pension was covered? Would the Labour Party be able to argue for national superannuation? If they did, would they be heard? (A Conservative Act of 1956 provided some encouragement for annuities for people who are self-employed—shopkeepers, builders, window-cleaners, accountants, barristers, writers, etc.—or employed by firms with no pension schemes. But the tax concessions have not been sufficient to attract, in 14 years, more than 250,000 out of several million who could be covered by such annuities.)

Still more fundamental: the remaining pockets of absolute poverty must be removed if society is not to be regulated increasingly by successive rounds of centralised control on the ground that, since *some* people are poor, or ill, or ill-housed, or ill-educated, we must *all* be provided with money, or medical care, or housing, or education by the State. Since *relative* poverty will always be with us as long as incomes differ, it must be prevented from being used as the pretext for progressive government interference in our social and economic life.

And so to 1969. It has taken Mr. Crossman from 1964 to reach the seat of office from which he could launch his brainchild of 1955. In January a White Paper announced the broad outlines. Apart from the apparent abandonment of a National Pension Fund for investment in industry, they were substantially as foreshadowed in 1957. But there was a fundamental omission: the terms for contracting out by firms that had better schemes. Mr. Crossman invited the pensions industry to consultations—the Life Offices Association (LOA), the National Association of Pension Funds and the Society of Pension Consultants of the Corporation of Insurance Brokers. The CBI and the TUC were also consulted as representatives of the employers and employees.

The nature of these consultations was obscure. Initially they seemed to be talks between equals, an impression created and reinforced by the use of the term "partnership" by both sides to describe the relationship between state and occupational pensions. Even in the early days it must have been clear that the hopes of many insurance officials that they were embarked on a purely technical, actuarial exercise, were unfounded. The Director of Public Relations of the Life Offices Association wrote a newspaper article on the White Paper in words that were gushing and naïve or deceptively tongue-in-cheek:

> It is vital to take a long cool look at it, and not to down it impulsively for particular shortcomings.
>
> The life offices have described it as "realistic in principle." It certainly has one outstanding merit. It does make an honest effort to see people as human beings—individuals with widely varying tastes and needs.
>
> . . . it sets out to create a pension system which will keep all retired people out of real poverty and still give them a chance as individuals to enjoy retirement at the kind of living standard they have been accustomed to while working.

What better commendation than that? Not a word so far about the financial purpose—to find money for *existing* pensioners. But more in the same vein of bonhomie:

> For largely administrative reasons, no State scheme can treat everyone as a special case. . . . This is something that "occupational" schemes can do.
>
> [They] cannot however by any means do the job for everyone: they are not by a long chalk within everybody's reach.[4]

This formula not only surrendered the position, but also surrendered it unnecessarily, because occupational schemes are still spreading and would do so further if unimpeded: and, more important still, they are *not* the only way to provide private pensions. But this, in brief, was the superficial thinking on which the short-lived honeymoon between the life offices and Mr. Crossman was based. For much more than this was at stake: a political principle, the Government's standing with its supporters, its hopes of appearing to improve on Beveridge, and perhaps the reputation of an able Minister who had invested 15 years in an idea. I voiced these doubts on 6 March in a debate, organised by the Chartered Insurance Institute of London, with a member of the LOA's committee negotiating with the Ministry.[5] Later in March Sir Paul Chambers, a former head of the Inland Revenue, was also critical of the Crossman scheme.[6]

The "discussions" continued into the spring and summer. The "interests" were consulted separately, and they were not encouraged to exchange notes. But it may have been Mr. Crossman's innate academic approach that caused him, in April and May, to blurt out hints on how his mind was working on the terms for contracting out. The insurance experts' comments became perceptively sharper and a shade less politely formal. The most colourful description of the hinted terms, by an austere actuary with fighting spirit who led the LOA, Gordon Bayley, was "peanuts." Not a day too soon the LOA said contracting out was not "a concession" but the essence of "partnership" between state and occupational pensions. Other pension people also became alarmed and restive, but they were silenced by membership of one or other of the organisations being consulted. At last Mr. Crossman was being seen as a consummate tactician in psychological warfare as well as a politician with a care for the "under-privileged."

4. "Your Pension and You . . . ," *Evening Standard,* 19 February, 1969.
5. Report in *The Policy Holder,* 4 April, 1969. Reproduced in Appendix A, pp. 217–20.
6. *Forward from Beveridge,* later published by the Institute of Statisticians.

In May Mr. Crossman announced that to pay for the higher pension and other benefits promised for the autumn, and to avoid increasing deficits in the National Insurance Fund, £430 million a year would have to be found from higher contributions, and they would be graduated with earnings in the 1961 scheme. In a speech on 25 November he explained that to pay for the increased pensions he had increased the employee's contribution by 1s a week and put the rest on the graduated pension instead of increasing the employee's and employer's contributions by 3s 6d a week each. This arrangement he described as: "wangling the Boyd-Carpenter scheme . . . stretching it to the limit. . . ."

It may have been this interlude which aroused further disquiet about what might be in store in 1972. In June a highly respected elder statesman of the pensions world, T. A. E. Layborn, spoke out in a sharply-worded address to a meeting of business executives. In August the National and Local Government Officers (NALGO) published a statement indicating widespread alarm among its 400,000 members employed by local authorities. Other unions—the Transport & Salaried Staffs Association, the National Union of Journalists and the Association of Post Office Executives—joined its criticisms at the Trade Union Congress in September and the Labour Party Conference in October.[7] In September the Pension Consultants declared against the principle of graduated pensions. In November criticism spread to the CBI when the contracting out terms were announced in a further White Paper (Cmnd 4195). Finally, the Bill and accompanying White Paper (Cmnd 4222) were published on 17 December, 1969.

The details have by now been amply publicised and discussed in the newspapers and on the broadcasting channels. They will not be repeated here because we are concerned with what they *imply* rather than what they *say* (in any event, they will almost certainly be changed before the scheme is due to

7. By January 1970 not many other unions, with members likely to be affected no less than NALGO's, had voiced doubts or unease, at least in public. Among the main ones are the Association of Scientific, Technical and Managerial Staffs (Secretary, Mr. Clive Jenkins), 75,000 of whose 115,000 members are in occupational schemes, the Clerical and Administrative Workers Union, and the Union of Shop, Distributive and Allied Workers (Mr. A. W. Allen). The National Union of General and Municipal Workers (Lord Cooper) has 250,000 members in occupational schemes. The Draughtsmen and Allied Technicians Association (Mr. George Doughty) has 80,000 in occupational schemes. The Society of Graphical and Allied Trades has 230,000 members, most in occupational schemes. The Amalgamated Union of Building Trade Workers has 23,000 in steel industry and local government schemes and some in building industry schemes.

start). But for convenience the main figures as they were in December 1969 can be summarised and the question asked "but who pays?"

(a) *Contributions* (for employees not contracted out):
  (i) employees (men and women) would pay 4.75% of earnings[8] for the "national superannuation pension," 1.7% for unemployment, sickness and other "social insurance" benefits, and 0.3% to the National Health Service, making a total of 6.75%;
  (ii) employers would pay 4.5% of *total* earnings, 1.7% and 0.6%, plus 0.2% for redundancy payments, total 7%;
  (iii) taxpayers would add 18% of employees' and employers' contributions.

(b) *Pensions*
  (i) single persons:
    60% of average working-life earnings up to half of national average earnings;
    25% of average working life earnings from half to 1½ times national average earnings.

These figures mean that, roughly, the few people earning up to half of the national average in 1992 will have a pension of 60% of their average life earnings, people with or near the national average about 40%, and people with 1½ times the average about 35%. (There would thus clearly be a good deal of switching about of money in this scheme: whatever it is, it is not a straight pension scheme. There is a good argument for saying that people with less than average earnings should get a higher percentage of them in pension than people with higher earnings. But that is not the point. The question is; *is this the best way?*)

  (ii) married women—a choice of:
    (*a*) as for a single person;
    (*b*) a reduced pension based on husband's life average earnings plus 25% of her life average earnings.

(c) *Partial contracting-out*
  (i) Pension "abatement" (gobbledygook jargon for "*reduction*"). Men 1% of earnings up to 1½ times national average. Women 0.55% of earnings up to 1½ times national average.

8. Up to 1½ times national average earnings (now about £1,900, but probably rising to over £2,000 in two years).

(ii) Contribution abatement:
Employer 1.3% of earnings up to 1½ times national average.
Employee 1.3% of earnings up to 1½ times national average.

The figures seem disarmingly simple. What lies behind them? The employee/employer/government contribution arrangement seems cosy. It is used, with variations, wherever governments raise money by "national insurance." But it is one more of the fictions on which the system is built.

Employees, employers and "the Government" may pay these sums in the first place, but that does not mean that they suffer all the cost. Economists speak of "impact" and "incidence" to differentiate between the initial and the ultimate effect. The two are different because the contributions can be shifted to other people. As indicators of who "pays" in the last resort, these figures mean very little.

(i) The employee's contributions, which would be a proportional tax on earnings, would not necessarily be paid by having them deducted from wages or salary. If a union is strongly organised, or an individual worker is in high demand, or a firm is stuck with capital equipment it cannot leave idle, or makes a perishable product so that it cannot stand industrial friction or stoppages, the contribution could be passed back to the employer, who may bear part of them out of profits as a smaller loss than would result from interruptions to production.

(ii) If the employer sells a product in strong demand, or the general economic situation is inflationary, there are several ways he could pass on both the employees' and his own contributions (another tax on earnings); by resisting higher costs or raising prices; alternatively he may lower quality, or produce a narrower range of sizes, shapes, models, colours, etc., etc. Although the employee does not receive it, the employer's contribution is part of salary or wages; it is paid *for* the employee; if it was not paid, salary or wages would tend to be higher.[9]

(iii) The government's contribution does not come from gold mines underneath Downing Street or Whitehall. It comes from the pockets of taxpayers. Taxes on income or wealth are progressive; they are borne more than proportionately by the better off. Taxes on purchases—beer, tobacco, petrol,

9. "I wish the Minister of State [Mr. David Ennals] would give up talking about those in occupational schemes as 'privileged'. . . . They have had to pay for their pensions and they go on paying for them from the start to the finish of their careers." Mr. A. Palmer, (Labour), *Hansard,* 4 December, 1969, Col. 1781.

clothes, household goods—are regressive; they are borne more than proportionately by wage-earners. Apart from a probably small part that may come out of profits, *all* the contributions come ultimately from the pockets of the employee either as a customer or taxpayer—or his wife in her shopping. But no one knows how much out of which pockets. The contributions would be switched and shifted about from some groups of employees to employers, from them to other employers and employees; from some industries and regions to others, and so on. No *individual* can know how much he would be paying. The neat array of figures is a gigantic concoction of monumental make-believe. Certainly most individuals who think they could be getting a good bargain should think twice. The only thing that is clear is that most people would be paying, as taxpayers and consumers, more than they think they would as employees. Young people especially will be paying in contributions for 30 or 40 years that could have brought them really high pensions if invested at high yields of interest. Mr. Crossman has not found the secret of King Midas.

CHAPTER VII

Eight Principles—Eight Fallacies

Apart from Mr. Crossman's persuasive salesmanship at innumerable conferences, meetings, dinners and confrontations during 1969, the new scheme has been launched by a series of White Papers, press conferences and booklets. Explanation, information, education and propaganda have been mixed in judicious proportions. The facile distinction between information (good) and persuasion (bad) applied to commercial advertising would have been no easier to apply to this flow of governmental advertising which showed often masterly deployment of information and argument.

In January, 1969, Mr. Crossman published a booklet, "Pensions—The Way Forward," a summary of the White Paper, and in November revised and republished it as "The New Pensions Scheme: Latest Facts and Figures with Examples," price 1s. (Why not free? Is not the shilling a socially divisive, regressive charge that bears more harshly on the poor man than on the rich?—Was it intended as a deterrent to frivolous, wasteful demand? Which commercial insurance company would expect its customers to pay for a brochure explaining a pensions scheme? Of course it could not make them pay, or join, as a state monopoly can.) The booklet provided more than facts, figures and examples; it laid forth objectives, principles and proposals. But even while the scheme was being discussed the figures had changed: the January edition was based on average national earnings in April, 1968, of just over £22 per week; the November edition used the April, 1969, figures of £24 (a rise of nearly 8%). The scheme becomes more out-of-date for more people each year as incomes rise and they can save without being told how, or how much, by the State.

As the "basic objectives" the booklet proclaimed "Eight important principles for the pensions of the future."

"1. Rights to benefit must be earned by contributions."

The argument: pensions financed wholly by taxation would be too low because "people are prepared to pay more in a contribution for their own personal or family security than they would ever be willing to pay in taxes."

The reply: an important truth, but only if applied to contributions to *private* insurance. This is an effort by government to cash in on the trust in private insurance. The distinction is obfuscated by clever academic talk about "pay as you go," creating a new kind of insurance; but what matters is the attitude of the contributor. There lies the difference. The contributor to a private pension regards the premium as a payment out of income. The contributor to a state pension regards the contribution as a deduction from income. Mr. Crossman's sociologists cannot see a difference between the two. The individual who joins a firm is normally expected to join its pension scheme after a period (and he is usually pleased to do so when aged 30 or 35); if he were not, Mr. Crossman would complain he was one of the "underprivileged." But the scheme is run by the firm where he works and he is closer to it than to a state scheme. He feels he has more of a say in it through spokesmen (or directly) than in the "national superannuation" scheme on which he is never able to express an opinion except at infrequent General Elections when it is one of 68 or 127 other policies. A man who sees his premium to an occupational scheme rise can feel he is saving more for the future. And if he does not like it—or anything else about the firm—he can move to another. He may not always take his accumulated pension rights, but in full employment he can usually change to a new job. A man who sees his "national superannuation deduction" has risen regards it not as a payment for something he will receive but as a loss of earnings. If he does not like it there is nothing he can do. (Of course, he can protest, organise, demonstrate, but unless he can get many hundreds of thousands or millions to think as he does he has to lump it because there is nothing he *himself* can do.) Small wonder then that he sees little if any difference between his national insurance and his PAYE tax deduction: both are monies taken by the State for services or benefits he cannot identify. He cannot see which part of his income tax or his beer tax or petrol tax pays for his local school, or hospital or refuse collection. "National insurance" may originally have had the noble intention of making more efficient and more comprehensive the private insurance that grew up for over a century in friendly societies, mutual societies and insurance companies; *but in making insurance national it transformed it* *into taxation.* Many people of integrity, like Mr. Douglas Houghton,[1] regret the dilution of social insurance by taxation because it seems to establish a claim to benefits that can be regarded as "earned." But in no country in the world, including the ones Mr. Crossman refers to as examples to commend his scheme, is national insurance self-contained. Everywhere it is not merely dependent on general taxation (private insurance is also often aided by concessions); its central weakness is that the constant struggle to keep its funds separate usually ends in failure. And everywhere politicians sooner or later succumb to the temptation to use it to raise revenue, not least by graduating "contributions." The significant difference is between payments to *the State* and payments to *private* organisations: because payments to the State are unitary, compulsory and cannot be identified with the services which they buy, but payments to private organisations are various, voluntary and can be identified. There is one state scheme; even if there were only two private schemes there would be a choice. In practice there are hundreds, with thousands of variations.

Here again the politician is out of touch. However much he may wish he could make national insurance different from taxation and like private insurance, the man who pays senses it *is* like taxation. A letter from a steelworker to the Editor of the *Observer* on 7 December, 1969, is more indicative of his attitude than is the wishful thinking of politicians.

> To the Editor of the *Observer*
>
> Sir,—I have a pain in my neck from shaking my head at Mr. Crossman's Fabian Tract, reported by Nora Beloff in your last issue, including his solemn intoning of "reducing or postponing the spending power of those at work" as a necessary evil.
>
> Where he gets the belief that those at work accept paying higher social security contributions with less hostility than higher taxes, I do not know.
>
> I work in steel and know more about industry and workers than Mr. Crossman and the Fabian Society put together and multiplied by 107. And although I know nowt of office workers, I can tell you that if Mr. Crossman expects any man to accept with anything less than naked rage the reducing or postponing of his spending power after a hard week shotblasting, turning, milling, grinding, or operating a windy hammer or whatever, then Mr. Crossman is going to get the usual surprise of those

1. *Paying for the Social Services,* Institute of Economic Affairs, 1967, Second Edition, 1968.

who try to replace incentive with an ideal that never has worked to anyone's satisfaction and never will.

As one old foundry hand put it when the contribution did its great leap forward recently: "Aye, one day we'll go to the pay office an' get some tickets fer us dinner, some tickets fer the housekeepin', some tickets fer fags an' nowt else."

That seems an exaggeration now, but it's the logical end of letting kind but impractical dreamers like Mr. Crossman loose on the social services.

Leicester. *J. Macdonald.*

Some Labour MP's are beginning to reflect similar views. Mr. John Forrester, Stoke-on-Trent, North, said in the debate on the November White Paper:[2]

> My experience has been that anything taken out of the wage packet at source of the average working man or woman is regarded as income tax . . . If these contributions are to be deducted in the same way as PAYE, the general population will look upon them as just another piece of taxation.

And these deductions have become so large that they cannot pass unnoticed. Perhaps in the 1920s when they were a few pennies a week, or in the 1930s when they were a few shillings, they might have been ignored or forgotten. But now that they are one or two pounds a week, politicians can hardly hope that they can be tucked out of sight and out of mind (Table B). And when it is clearly explained to the employee that, in all, including the contribution the employer pays for him, the new scheme would forcibly relieve him of nearly a tenth of his pay for "National Superannuation" and a seventh including "social insurance," and that these proportions would rise down the years, and possibly approach those in Germany and Sweden, the welcome for Mr. Crossman's Bill may be less than enthusiastic.

Earnings-related national superannuation contributions are a tax on earnings, or, in more familiar language, an income tax. In shifting the financing of British state pensions from a standard rate of contribution to an earnings-related contribution, Mr. Crossman has evolved a new form of income tax. It is true that it could be represented as an extension of Mr. Boyd-Carpenter's 1961 scheme, but that was based on Mr. Crossman's of 1957. It is also true that the idea is not indigenous but copied from other countries. But if the Bill is described as heralding a great advance in British social policy it

2. *Hansard,* 4 December, 1969, Col. 1770.

Table B. Employees' Contributions

National Insurance Pension, 1948–69 (not contracted out)

		Men		Women	
		s	d	s	d
Year	1948	4	7	3	7
	1951	4	9	3	9
	1952	5	5	4	3
	1955	6	4	5	3
	1957	5	7½	4	8½
	1958	7	4½	6	2½
	1961 (graduated scheme)	7	3½	6	3½
	1963	8	3½	7	2½
	1965	10	2½	8	10½
	1967	12	1½	10	6½
	1968	12	8	11	0
	1969	13	7	11	10

National Superannuation (Pension) and Social Insurance, 1972 (not contracted out)

		Proposed		Present	
		s	d	s	d
Earnings per annum	£1,000	26	0	27	2
	£1,250	32	5	30	5
	£1,500	39	0	33	0
	£1,900 and over	49	5	34	0

should also be recognised as introducing a new form of tax on earnings. At a time when direct taxation on income is regarded as economically harmful and is increasingly resented by wage- as well as salary-earners, earnings-related national superannuation may earn fewer bouquets for the benefits it promises than brickbats for the tax it exacts. If it were calculated as an electoral asset, which some of Mr. Crossman's supporters have hoped it might be, it may after all prove an electoral albatross.

That national insurance is different from taxation is, on paper, a plausible hope; but in practice it is a pretence that is not maintained even by officialdom. National insurance contributions are usually lumped together with general tax revenue in official statistics. No doubt good men will go on hoping that there is, or could be, a difference. But the truth is stated in one of the last pronouncements of another failure of recent government, the Department of Economic Affairs. In its "Progress [*sic*] Report," No. 55, dated August 1969, it said:

> Social security contributions are included [among taxes] because they are compulsorily levied by governments, and public social security schemes must be regarded as an instrument of public policy rather than as a trading activity comparable with private insurance schemes.

Some politicians value the national insurance principle as an idea they wish would work in practice to make state pensions safe from politics. Mr. Crossman told the NALGO conference that taxation would put the pension "at the mercy of the Chancellor," but the scheme would create "a contract that no Chancellor can ignore." Other politicians value it as a financial expedient in producing money they cannot raise by taxation and in giving them more power to run the economy. There are politicians of both kinds in Britain, and some with mixed motives. Other countries struggle to make national insurance work, but their politicians cannot easily lose face by confessing failure. Some in the USA and elsewhere claim its difficulties would become manageable if only it covered still more benefits and people. New Zealand has abandoned its 30-year effort to run a social security tax related to earnings. Australia has never used national insurance at all.

"2. Benefits and contributions must be related to the contributor's earnings."

The argument: the more a man (or woman) earns, the more should be saved for retirement.

The reply: this is the paternalist autocrat at his worst. The mischief was started by the Conservatives in 1961 and my criticism of it is reproduced in Appendix C. Government may require a man (or woman) to save at least enough to avoid having to depend on more far-seeing people in retirement. But beyond that the State has no business at all. How much more people want to save is their business. Many or most may want to save enough to continue their living standard after retirement, which means an income of not far short of their earnings in, say, the last five years before retirement. But man is mortal. If he dies before retiring, his self-denial in all his working life has been in vain. To tell a man he *must* save (beyond the minimum) is an invasion of a basic human right to live life as he pleases. Politicians of this sort should be put in their place. So, ideally, should firms that make membership of a pension scheme (beyond a minimum) compulsory, though the latter is less objectionable since men can change firms: the State is inescapable. Every man should be able to contract out of saving more than a minimum in specific pension rights, and to tell him he must save more than this minimum *through the State* is to aggravate the impertinence. Even if there were a case for compulsory saving above the minimum, he should at least be allowed to save how he pleases.

The notion that pensions must be earnings-related is a transparent pretext dragged in to make graduated national pensions sound humane. It should be seen for what it is: a shallow rationalisation.

"3. Benefits must normally be sufficient to live on without other means."

The reply: Yes—if this means a minimum income in retirement. But it is the same for everyone. It does not require a compulsory *earnings*-related pensions scheme. The community is hardly obliged to keep a retired skilled worker in a larger car than a semi-skilled man, or a retired office manager in smoked salmon because he was accustomed to it.

The doctrine of maintenance of living standards in retirement is one of the most meretricious propositions that has emerged in recent years. What it does to the notion of the "socially divisive," which compulsory earnings-related pensions would perpetuate into retirement, must be left to the consciences of the confused sociologists who have inveighed against it for so long.

Here Mr. Crossman has resourcefully come to their rescue: he has enunciated a new theory of "social damage."[3] People should not be able to pay for better education or medical care, for that would do "social damage." But

> We think it doesn't do social damage in pensions or housing for people to be allowed to do this . . .
>
> . . . as Socialists we say that people should be able to buy themselves something better.

This *sounds* like a remarkable development in political thinking. Is it a profound proposition worthy of an academic's tome rather than a politician's sentence in a party lecture? What are its origins? What is its *rationale?* What

3. Fabian Tract 399, p. 20.

is its intellectual and philosophic lineage? What would be its implications for other government policy? Is it a great new truth shared by Mr. Crossman's colleagues in the Cabinet? the Government? the Parliamentary Labour Party? the Coventry East Labour Party? For, observe, Mr. Crossman says "*as Socialists,* we say. . . ." But what say the ghosts of Karl Marx, Lenin, Harold Laski, Aneurin Bevan, John Strachey and Kingsley Martin?

This is not as lofty a proposition as it sounds. It seems suspiciously like a piece of resourceful improvisation devised to make sense of the widening gulf the Government has to face in social policy. In pensions 12½ million people—half the labour force and two-thirds of the men[4]—are accumulating occupational pensions, and many more are saving in all sorts of other ways for retirement. It is too late to force them all into a single pension mould on the ground that, although differential earnings may be a regrettable necessity for incentives, differential pensions would be repugnant as an unnecessary source of social divisiveness in retirement. And 9 million people own their homes—half of the total. Some live better than others, as do some tenants than others. Here again it would be far-fetched to suppose that all householders could be squeezed into a common, standardised "accommodation unit." Hence the convenient theory that differential housing and differential pensions do no "social damage."

But only 5% are privately insured for "something better" than the National Health Service (not that everyone has exactly the same treatment: advantage can be bought by power and influence as well as by fees). And only about 8% of children are at private schools to get "something better" than state education (not that they always do; and nor do all children get the same at state schools).

Now that is politically a very sizeable difference: 50% in "better" housing and pensions; only 5–10% or so in "better" medical care and education. It is therefore not politically feasible to prevent "earnings-related" housing and pensions. But it is politically feasible to prevent "earnings-related" education and medical care. Or at least it may be politically profitable to appear to show concern about their "social damage" as a result of queue-jumping and other disagreeable practices.

Now suppose that half the people had "earnings-related" education and medical care as well as housing and pensions. This is what would have happened if it had not been prevented (and *everyone* would have had better medical care and education: Mr. Crossman is not arguing that earnings-

4. These are the proportions reluctantly conceded by Mr. Crossman. But they are much larger if younger men under 25 or 30, who should not necessarily be forced to save for retirement, though they may want life assurance if married, are omitted.

relation will *reduce* the lowest pensions). Should we then be hearing about a Theory of Social Damage? Since we may have more private "better" medical care and education by 1992, as well as more extensive "earnings-related" (private) housing and pensions, how does Mr. Crossman propose to prevent "social damage"?

Moreover, while it is too late to suppress "earnings-related" housing and pensions as dangerous competitors to state-approved and state-provided housing and pensions, even small competitors from private education and private medical care are "disturbing elements" in the attempts to organise centralised state education and a National Health Service.

The Theory of Social Damage could be demolished by a first-year undergraduate of economics or political science, although a student of sociology might have more difficulty. Perhaps it should not be taken seriously but dismissed as an aberration or political trimming.

"4. Benefits must take into account changes in price levels and in general living standards."

The argument: the risk that money will change in value must be pooled, and pensions should share in rising living standards.

The reply: as a general objective this is unexceptionable. It may require help for people with low earnings and a requirement to save for people disinclined to save. But for the rest it should be attained in the ways people prefer: it does not require compulsory *state* saving for *everyone.*

The statement presumes that money will continue to fall in value year by year and prices continue to rise. That is a political risk, arising from the inability of politicians to maintain the value of money. But if prices continue to rise, so do the yields of investments, and, although some were slow and unenterprising, pension funds have increasingly been invested in the most profitable enterprises, some of which have much more than kept pace. Mr. Crossman offers the taxpayer of the 1980's and 1990's a guarantee of future pension values. (Nothing is more likely than that such a guarantee, if it were believed, would weaken resistances to inflation.) I prefer the investment manager of 1970, because there is a choice of managers and investments and the failures can be changed.

Further, a given rise in pensions can be arranged beforehand by paying a larger premium to cover an assumed rate of growth in living standards. Oddly, the Inland Revenue limits approved schemes to 2½% a year.

But—who is to say that benefits "must" take into account rising prices and living standards? That is for the individual to decide for himself. To repeat: he has only one life; no-one is better equipped to decide how to apportion his earnings between the 40 to 50 years of work and the 15 to 20 years of retirement—if he survives.

"5. Women will contribute on the same basis for men and earn similar benefits."

The argument: married women now may choose whether or not to pay the flat-rate national insurance contribution. But many considering part-time work would doubt whether it was worth working at all if they had to pay it. Under the new scheme women who earn little would pay little. They would no longer have to choose between a flat-rate contribution that takes a large proportion of their earnings and not insuring at all.

The reply: here again, there is a curious use of words. If it is desirable to give married women with low earnings from part-time work the opportunity to insure at a lower level, *those who wish* can be given it without bringing in *every* married woman (about 2¾ million) and forcing her to insure whether she wishes or not. Again the exceptional few are used as the pretext for extending the State system to all.

If the low-earning married woman is to have a benefit larger than earned by her subnormal contribution, it should be found from general taxation. Again the scheme is self-condemning as an abuse of insurance to disguise taxation.

Women's circumstances may differ—their range of dependants is usually smaller—yet they will be compelled to insure as though their circumstances were the same, and whether they wish or not. It is arguable that they should be able to insure against the risk of widowhood and not depend on their husbands. But this scheme would leave them no choice. There is a difference between being able to insure and having to insure. The suspicion is that Mr. Crossman is more interested in extracting their contributions than in providing them with pensions.

This arrangement is described as "The new deal for women." It is "new"; but "new deal" normally means "better." What sort of philosophy is it that regards compulsion as better than choice? or compulsion for all justified by the exceptional requirements of the few?

"6. The scheme will be run on the 'pay-as-you-go' principle."

The argument: the contributions are fixed to meet the expected cost of pensions in each period: since they vary with earnings they will produce more income as earnings rise so that pensions can be raised with prices and incomes and therefore without an "excessive" burden on future contributors.

The reply: This proposition naïvely, or subtly, begs the whole question underlying the task of accumulating retirement income in an increasingly opulent society. The seven million pensioners of 1970, with the two million or so in need of higher pensions among them, will have passed on by 1990 or 1995. People reaching 65 in 1980 and beyond will mostly have lived through times of full employment and high pay out of which they could save for retirement. Many have done so; most could do so. To give higher pensions to the relatively few who did not or could not save does not require everyone to be enrolled in a new, larger, growing scheme in which they will accumulate state pensions for themselves.

Since earnings, as Mr. Crossman's booklet says, will be rising, people will be able to save for retirement in the various ways they themselves prefer. The sane thing to do in a civilised society is to let them, or encourage them. And that would free government for the jobs that only government can do, but which it now neglects because its characteristic defect is that it is reluctant to relinquish the power it exercises in mothering people who want to grow up.

That is the essence of the matter. The practical problem that should engage the thoughts of statesmen in a liberal society is that of changing from compulsory state pensions, which may be appropriate when most incomes are low and people will not or cannot save, to a more flexible system in which people could save how they wished—and how much they chose (beyond a minimum). The task of statesmanship in a free society is to decide at which age people shall be weaned from the State system and be freed to accumulate retirement income by pensions, endowment assurance, house purchase and investments of various kinds.

Why have politicians—in Britain and other countries—thought of extending only national insurance even though social and economic advance have made it out-of-date? That is the question that has hardly been asked, still less answered, by the advocates—or the critics—of bigger and better national insurance. Yet it is the question that the British people must ask. Is it because the administrative problem of change is complex? Or because national insurance can be used to distribute governmental favours? Or because it is a convenient method of raising revenue without the unpopularity of asking for higher taxes? Or because it expands the power of politicians by enlarging the domain of government?

However well-intentioned the proposed expansion in state pensions can be made to appear, these are questions that should not be left unanswered in the next few months. But they will not be answered unless they are asked, insistently and repeatedly. The detail of who pays how much for what seems immediate and urgent; but much more is at stake than who gains a few shillings at whose expense: a 1970 version of Lloyd George's ninepence for fourpence. This argument is an effort to escape from the dilemma of "pay-as-you-go": that it builds up nothing—except easy promises for someone else to keep. But there is no escape. Aneurin Bevan saw the truth: in the House of Commons on 9 December, 1954, he said:[5]

> The universality of social security in Great Britain completely destroys its insurance character. The only way one can save for the ageing population is by investment.

The vain effort to escape derives from the failure to see that there are two classes of pensioners: the present and the future, and their pensions require *different* methods of financing. As long as they are not separated, growing financial confusion will follow.

"7. The State scheme will work in partnership with employers' pension schemes."

The argument: the "important part" that employers' schemes have to play in partnership with the State scheme is recognised in the arrangements for partial contracting out. The new State scheme "is designed to assist the long-term development of employers' schemes," but they will have to undertake "some re-adjustment."

The reply: the relationship between State and occupational pensions is fundamentally competitive, not complementary. If there is "partnership" it is between a senior partner who makes the rules and a junior partner who observes them. If the junior partner grew too big for his boots he would be disciplined by a change in the rules. It may suit the senior partner to allow his junior partner a little rope, but the junior partner would soon be reminded that he survived on sufferance.

The occupational schemes, whose managers initially thought they could outwit the Minister in the partnership game, would soon see how much rope they would be allowed if they contracted out (*partially*) on a scale larger than suited the finances of the state scheme. If they did, the income of the state scheme would sag, and either the national pension contributions would

5. *Hansard,* Col. 1156.

have to be raised sooner than the Minister has been saying; or more money would have to be found from taxation (which it is the central purpose of the scheme to avoid); or the promised pensions would have to be postponed. What more natural than for the Minister, Mr. Crossman or a successor, to show that all these disagreeable consequences could be avoided by a single device: by making partial contracting out even more partial by altering the terms so that it became too difficult and costly to satisfy them? The "partnership" game is replaced by the power game.

If the Government now recognises that occupational schemes have "an important part to play," it is a reluctant acknowledgement of a development it had not foreseen and does not welcome. They are an unwelcome intruder, not a long-hoped-for guest. They provide a large amount of private saving which helps to fend off inflation and equip industry with risk capital. Although other forms of saving might develop in time, the demise or drying up of occupational pension saving would make the Government's financial management of the economy more difficult and higher taxation necessary to mop up the purchasing power it distributed for consumption through "pay-as-you-go" pensions.

Whatever these refinements of monetary and budgetary policy, the Government, despite Mr. Crossman's Theory of Social Damage and the exoneration of differential pensions, would want fewer occupational schemes, fewer employees covered by them, less money going into them, and fewer employees looking to private industry for their income in retirement rather than more. The claim, therefore, that the new State scheme is "*designed*" to assist the expansion of occupational schemes can hardly be taken seriously.

The philosophic predilections of the parties to the pensions debate cannot be brushed aside. The controversy is not merely technical, or financial, or economic. If Mr. Crossman thinks occupational schemes are now "important" it is not because he values them as a method of accumulating retirement income. Twelve years ago he thought they were dying out and the prospect did not depress him, although they were "important" then. If he could choose now, he would like them to have died out because he prefers State to private pensions. Although he now thinks that paying for better pensions would not do "social damage," he would not facilitate their starting if they did not exist, nor help them if they waned. He may have indicated his underlying feeling in a revealing phrase at the NALGO meeting, where he spoke of "a mushrooming of occupational pensions" since 1957. It is unwanted vegetation that "mushrooms."

Mr. Crossman's talk about "partnership" between State and occupational pensions is political salesmanship. The relationship is not a partnership but an uneasy equilibrium in which the political influence confronts and frustrates the economic tendency: the political power is poised in reserve to maintain and expand state pensions whatever difficulties they confront from rising incomes and the consequent urge to independence from state tutelage. Such a confrontation cannot be resolved in favour of independent choice if the State is run by people who believe that the State and not private individuals, or commercial insurance organisation, or industrial employers should provide pensions.

"8. People changing their employment will be legally entitled to have their pension rights from their employer's scheme preserved."

The argument: there are no universal or comprehensive arrangements for "safeguarding" pension rights in an occupational scheme on a change of job. The Government intend to require all employers' schemes to preserve pension rights for employees who so wish. Other employees will continue to be able to withdraw their contributions.

The reply: strictly this is another part of remuneration that is agreed between employer and employee (or employers' association and trade union); both sides know the terms of the contract and can avoid them if they are unacceptable.

On general economic grounds there is a strong case for preserving or transferring pension rights in order to encourage mobility of labour. Employees should be able to choose between taking accumulated pension rights or their contributions (and their employer's) in cash. But the Government's proposal, to allow withdrawals of contributions, conflicts with its criticisms of employers who fail to preserve pension rights. Withdrawal of contributions is being confused with accumulation of savings. The Government, says Mr. Crossman's booklet, "sees considerable merit in leaving an individual free to decide whether or not to withdraw his contributions." Its commitment to freedom in that respect conflicts oddly with its neglect of freedom in others. If individuals should be allowed to withdraw their contributions *they should be free to do so from the State scheme if they can use them to better effect elsewhere.* In principle withdrawal from State, as well as private, schemes should be permitted provided the contributions are used to accumulate savings in some other form which the employee prefers.

The Government is itself an employer. Civil servants normally take their pension rights if they move to other public (or sometimes quasi-public) employment. But not if they move to private employment before the age of 50, when mobility is most likely and beneficial. In this respect the Government has itself been more at fault than private employers who preserve or transfer pension rights after a minimum period *wherever their employees move.* Mr. Crossman's booklet was silent on this shabby treatment of civil servants but the criticism has struck home. The Bill (Clause 109) requires pension rights to be preserved for employees aged 30 who have been in an occupational scheme in industry. It excludes civil servants, members of the armed forces and "analogous employments," but the Explanatory Memorandum says it intends to preserve pension rights for them from the beginning of their employment. Why not put this promise into the Bill? Is this one more government "undertaking"? How often have civil servants been disappointed?

These are the "eight important principles." More could be said against all of them. Even where they make sense as *objectives* they do not make a case for the *policy* of a compulsory state pension scheme that draws in almost everyone (about nine-tenths of those earning up to 50% over the national average), men and women, however much they wish to save, and whether they wish to save through the State or not.

CHAPTER VIII

Humanity for the Aged

I suggested above that the primary object of government pension policy should be to ensure the most generous possible assistance to old people who cannot help themselves. The Crossman scheme would "revise" the existing basic State pension every other year to take account of rising prices, and leave it to the discretion of future governments to adjust for rising incomes. This proposal falls short of what is humanely desirable and financially possible in Britain.

The pension for a man and wife has risen from £2 2s in 1948 to £8 2s in November, 1969. Yet notions of what is desirable for a couple, as reflected in Supplementary Benefits for people in need, have risen with rising prices and general living standards, so that two million out of the seven million pensioners have their pensions supplemented. Pensioners receive sums varying from a few shillings up to £12 10s a week in Supplementary Benefit. It would cost £220 millions to raise the basic pension to the point where Supplementary Benefit can be dispensed with. Even if this additional money could easily be found from National Insurance contributions or taxation, much or most of it would go to the remaining five million pensioners not drawing Supplementary Benefits. Some of them should be given more, but many of them are comparatively well-off. Even though they pay tax on the pension (as earned income), if they numbered, say, three million they would receive in all additional hundreds of millions of unnecessary aid that could help pensioners in more need and reduce taxation.

If the relatively affluent pensioners were few in number, it might make sense to distribute the pension universally to every retired person at 65 (or 60 for women) and retrieve some of it from the affluent pensioners by taxation. But their proportion may be around half of the seven million, and it will grow in the next 10 and 20 years as people now earning accumulate income in retirement from occupational pensions, other forms of saving, and perhaps part-time work. The tax "claw-back," on which the Government preens itself in family allowances as though it were discovered in 1968, will then be seen, *first,* as increasingly requiring unnecessarily high taxation, *second,* as administratively wasteful in the to-ing and fro-ing of a money shuttlecock from the pensioner-taxpayer to the Government and back again, and, not least, *third,* as inhumane since it would be distributing too much money to people with enough and too little to people with too little.

How does Mr. Crossman reconcile this patent inhumanity with the compassion he professes for the poor and "the disadvantaged"?[1] (a fatuous term). The answer is that he is caught in the dilemma of conflicting objectives: compassion for the poor and passion for equality. As an egalitarian who believes that conditions or systems are acceptable only if they are shared equally, he cannot foreswear the universal, equal pension as a right. He rationalises this attitude by claiming that any further effort to relate State assistance to individual circumstances in means and needs would be as reprehensible, obnoxious and unacceptable as a means test.

There are so many flaws in this attitude that they must be stated briefly. First, the reasoning reveals a confusion about the meaning of words. Equal pensions to people with unequal needs and means is not equality of treatment of human beings in any intelligible sense. *Equal* pensions to people in *unequal* circumstances give *unequal* help. Second, is it compassionate to acquiesce in the notion that people carry a social stigma if they accept means-tested pensions *even when their needs are larger?* Third, do pensioners themselves prefer equality of status to more generous assistance? Mr. Crossman and the Government do not know, because they have not asked the pensioners. And when they are asked they do not give the answer Mr. Crossman supposes. Let the Government use the Social Survey to find the truth. Fourth, the State pension is not like an occupational pension, an income bought by "contributions." Most of it comes from the taxpayer: for new pensioners 80% or more. Only the rest can be described as a "right" earned by the pensioner's (and his employers') national insurance contributions. But that is no reason why the community of taxpayers should not give the pension with good grace, or why the pensioner should not receive it without loss of dignity or pride. Let the Government ask the people and base its policy on public opinion, not on superficial surmises.

The one condition for this relationship based on mutual respect is that the pensioner shall be in need despite honourable effort to make himself independent. No one objects to helping a man who cannot help himself.

1. *Paying for the Social Services,* Fabian Tract 399.

The relationship is soured only when the pensioner is not in need and could avoid dependence, as millions of pensioners are and can today. Provided help is accepted in good faith there need be no resentment in the giver or indignity in the receiver. Neither need the assistance be grudging or sparse. A prosperous community such as Britain could afford to give generously to old people who had no chance to save enough for retirement or whose living standards would otherwise be noticeably lower than that of the rest of the community. This is broadly the position in Australia, where there is no "national insurance" at all but where the whole of the pension is provided out of current taxation. It disregards other substantial resources of income and property and the pensioners harbour no sense of stigma.[2] The notion that national insurance replaces stigma by dignity is another myth fostered by politicians.

Mr. Crossman's proposal to revalue the pension every other year misses the target. However much the pension kept pace with prices (or living standards), some individual pensioners would continue to receive too little and many too much. And it is with individual pensioners—people with unique needs and means—that we should be concerned, not with abstract averages or notions of general equality that tolerate inhumanity to some and largesse to many more.

The Government, under the influence of Mr. Crossman and his sociologists, has had to recognise the callous neglect of individuals that is unavoidable in its doctrinal enthusiasm for universal, equal social benefits. But its traumatic incapacity to tear itself away from the 1930s and the household means tests makes it cling to the notion that although perhaps benefits should not be universal they should at least be based on "categories," "classes" or "groups" of people in recognisable special need—the old, the long-term sick, the disabled, heads of large families—and not on individual cases.[3] This shift from universality of social benefits to variation by "category" shows some progress from the rigid attitudes of four or five years ago when Labour listened to its academics, indulged its doctrines, and was not confronted by awkward evidence in making policy. But it is not good enough. There is again a ritual obeisance to words. "Categories," "classes," "groups" do not have needs or feelings. Pensions and other benefits are designed to help *individual* people; and not all people in a "category" are alike. A disabled or sick or old person is helped not because he is disabled, sick or

2. Chapter XIII.
3. *Labour's Social Strategy,* a discussion paper published by the Labour Party, August, 1969.

old but because his disability, sickness or age prevents him from earning enough for independence. That is the stubborn truth that confronts the universalists; they have had to abandon universality but still hope to save its principle (and their faces) by the compromise of "category." They should not be allowed to escape the logic of their dilemma: they must choose between compassion for people and their illogical passion for equality.

The Government's notion of helping "categories," "classes" or "groups" is thus a half-way house from political rigidity to compassionate humanity. But it is a half-way house in which people are still semi-sacrificed to obdurate dogma. To help *individuals,* social benefits must be adjusted to *individual* circumstances. Politicians who would continue to use the repugnance of "means test" as a political instrument are insensible ideologists out of touch with the people. If there is objection to being singled out for variable assistance, the solution of humane politicians would be to devise an anonymous indicator of deficiency, not to erect a 40-year-old fear of the 1930s as a barricade against social reform in the 1970s.

CHAPTER IX

Pensions in Industry

In 1957 *National Superannuation* argued that most people not then covered by occupational pensions in small firms, or apt to change jobs, or in seasonal trades, etc. would never be covered. Hence, first, the politician had to step in and, second, force them to accumulate pensions *through the State,* i.e. through national insurance suitably calibrated to switch income from the higher to the lower incomes.

It must have been advised badly. The sociologists may know something of poverty but little of industry. With a characteristic admixture of candour and ingenuousness Mr. Crossman has now to confess that:

> we had hopes that our great new scheme, though it would allow good [another question-begging word] private schemes to contract out, would be able to look forward to a dwindling amount of private insurance and be able to take over most of this field of activity.[1]

It is difficult to make sense of this expectation (except on the ground that industry would dry up its pension schemes for fear of Mr. Crossman's intentions). Sober examination of the labour market, in which pensions are the main ingredient of remuneration apart from salary or wage, and of the reasons for the expansion in the number and coverage of pension schemes since the late 1920s, could not possibly have led to such a conclusion. Here again the reason for the error was that Mr. Crossman's advice was sociological, spiced with wishful thinking, rather than economic. In the event, as he concedes sadly but resignedly,

> the situation had been transformed . . . in the decade before we took office and started work on national superannuation.[2]

Even then he underestimates and understates the transformation.

1. Fabian Tract 399.
2. Ibid.

From 1957 until the end of 1967 the number of employees covered by occupational schemes had risen from 8 million to nearly 12¼ million.[3] *National Superannuation* 1957 said that occupational schemes were designed mainly for salaried employees and that there was not much chance for wage-earners in many industries. By the end of 1967 5¼ million out of 8¾ million wage-earners working for employers (private and public) with pension schemes had been covered. Table C shows the coverage of salaried and wage-paid employees, male and female, in private and public employment. Mr. Crossman's expectation or judgement or hope of 1957 was plainly very far out.

The coverage is by now certainly larger, probably over 12½ million. And it would have been larger still were it not for the continuing uncertainty caused by the incessant political talk of ever-larger earnings-related pensions, especially since 1964. Moreover, these figures (and the Government Actuary's figures) understate the coverage because they show *all* employees of firms with schemes. But if men aged under 25 or 30 are excluded (in all 3.1 and 1.4 million respectively, or 21% and 9.7% of the total male labour force), on the ground that retirement saving need not start so young, the coverage is appreciably larger.

What had gone wrong? A glance at the USA, where pensions have for years been an ingredient of collective bargaining, might have suggested that it was reckless or hare-brained to envisage "a dwindling" in occupational pensions. It is true there have recently been thinkers in the USA, similar to Mr. Crossman, who would expand Federal pensions to the point at which they constricted further expansion in occupational pensions.[4] But it would take a strong force to dislodge them from the American labour market. And, if they had not been inhibited in Britain, they would have spread much further, not least because of their very flexibility.[5]

Then, again, although the expansion of British occupational pensions has been substantially aided by the tax concessions on employers' contributions, it was too late to remove occupational pensions from the British labour market even in 1957. A hostile government could reduce the tax concessions, and ominous allusions have been made "at a top level review at the Treasury"[6] to

3. Government Actuary, *Third Survey Occupational Pension Schemes*, HMSO, 1968.

4. The Chief Actuary in the US Department of Health, Education and Welfare has recently described them. See chapter XIII.

5. M. Pilch and V. Wood indicate the possible variations in occupational schemes in a study of 620 staff pension schemes to which wage-earners' schemes tend to approximate: *Company Pension Policies*, British Institute of Management, July, 1969.

6. *The Times*, 3 December, 1969.

Table C. Coverage of Occupational Pension Schemes—31 December, 1967

		Number employed by employers with pension schemes (million)		
Category of earnings	*Sex*	Private	Public	Sum
Salaried	Men	4.4	1.7	6.1
	Women	2.0	1.3	3.3
Wagepaid	Men	6.2	2.5	8.7
	Women	3.2	0.8	4.0
Total		15.8	6.3	22.1

Source: Occupational Pension Schemes, Third Survey, Government Actuary, HMSO 1968. The percentages rounded to the nearest 5.

"major tax anomalies" that would result if tax concessions were continued on occupational pensions contributions after 1972 but not on national superannuation contributions. This hardly reflects the spirit of "partnership" between state and occupational pensions that has been Mr. Crossman's theme and refrain since the White Paper of January, 1969. But it could be an early intimation of the pressure the Government could apply to the occupational schemes, if the new State scheme ran short of contributions by an inconveniently large adoption of (partial) contracting out.

The truth is that politicians, sociologists, actuaries and other pension specialists have not clearly understood the role of pensions in the market for labour, or the mechanism by which they are financed. Pensions cannot be divorced from pay and other non-cash or deferred forms of employee remuneration. If one element is disturbed the others will change to restore the total remuneration or, as economists call them, the "net advantages" of alternative employments. If occupational pensions were forced into the State "insurance" scheme, other forms of employee remuneration would be developed to take their place. If employers and employees were compelled to shift their contributions to state pensions they would not passively sit by and leave everything else unchanged. Mr. Crossman has seen that the sizeable contributions employers in Sweden (and Germany and other countries)[7] have to make have been shifted forward to the consumer in higher prices and

7. Chapter XIII.

Table C (continued)

Number covered by pension schemes (million)			*Proportion (%) covered*		
Private	Public	Sum	Private	Public	Sum
3.2	1.5	4.7	75	90	75
0.8	0.9	1.7	40	70	50
3.6	1.6	5.2	60	65	60
0.5	0.1	0.6	15	15	15
8.1	4.1	12.2	50	65	55

have thus raised the "cost of living." He does not seem to see that this would also be done by employees whose contributions have been inflated, although he sees that British trade unions would not desist from large wage claims on the ground that their members were provided with large pensions by employers' contributions.[8] The difference is not that Swedish trade unions are more public-spirited but that the British labour market enables trade unions to ask for higher wages in the knowledge that employers will be even more tempted to buy "industrial peace" if they can pass higher wages on to the consumer as higher prices. In that event trade unions could also pass on their members' higher national insurance contributions.

In spite of his past errors, some of which he now sees and engagingly concedes, Mr. Crossman insists that

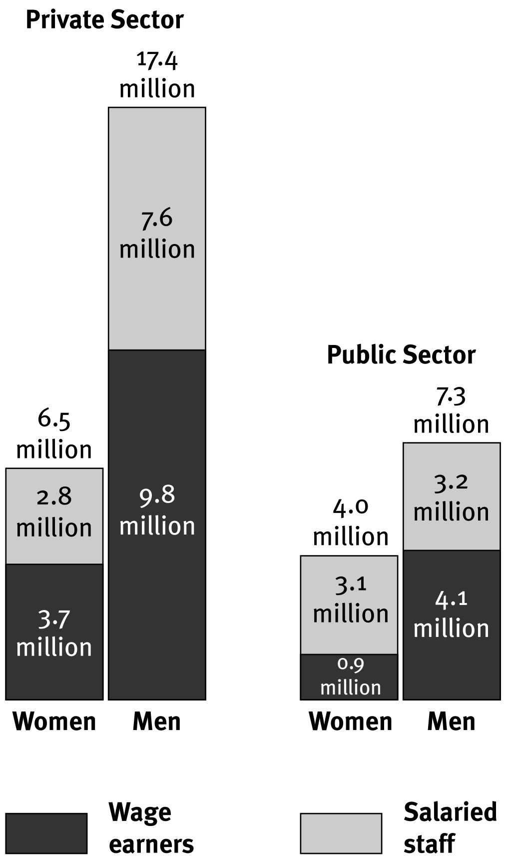
> However much occupational pensions are encouraged there will always be about one worker in four who is not covered by them.[9]

It is not clear what he means by "encouraged." The removal of obstacles could itself accelerate expansion—not least the jungle of rules governing the procedure for approval of pensions schemes. The Inland Revenue enforces these rules as though its primary task was to avoid tax avoidance; I suggested in 1960[10] that it should shed this function to a different office whose task would be to expedite pension schemes. There are many other obstacles to the development of occupational schemes, some of apparently secondary detail

8. Fabian Tract 399.
9. Ibid.
10. *Pensions for Prosperity*, Institute of Economic Affairs.

Numbers Covered by Occupational Pension Schemes

31 December 1971



but together comprising a formidable brake on occupational pensions. Then there is the special problem of small firms, often with seasonal labour, as in building, or intermittent labour, as in trawling, for which the solution would be federal schemes of various kinds.[11] Pensions could be based on *type of employment* rather than on single *employers* to facilitate preservation or transfer of pension rights on a change of job. Not least, there is no necessary reason why the pension should be based on occupation at all: it could be arranged by each employee in a manner to suit himself. This is indeed done, mainly by higher-paid employees, and it could in time spread to others. But it would be stifled by further expansion of graduated state pensions.

If the obstacles were removed, occupational pensions could in time cover all British employees who wanted them; the remainder would receive higher pay out of which to buy individual pensions. This would be the inevitable outcome in a competitive labour market, in which no employer can attract and keep employees unless he gives total remuneration that, in one form or another, is as good as that offered by competing employers. And this is especially true in full employment. There will always be declining firms, employees who like frequent changes, workers whose abilities do not command as much remuneration as the "norm," small firms with seasonal trade or intermittent work. Whether the workers in them number one in four, one in five, or one in six, it is hardly a good enough reason for disturbing the natural evolution of forms of payment that suit the other employers and employees. The intelligent solution, if no other voluntary method is evolved, is a residual State scheme for the unusual, uncommon or abnormal employee. A state scheme for everybody and anybody in order to make sure of covering the exceptional can hardly commend itself to a democratic and flexible society. But the notion that the old, sick, under-privileged or disadvantaged tail must wag the otherwise healthy and wealthy dog lies at the root of the argument for egalitarian centralisation in social, economic and political life.

11. "The Case for Federal Pensions," *Daily Telegraph,* 28 June, 1966.

CHAPTER X

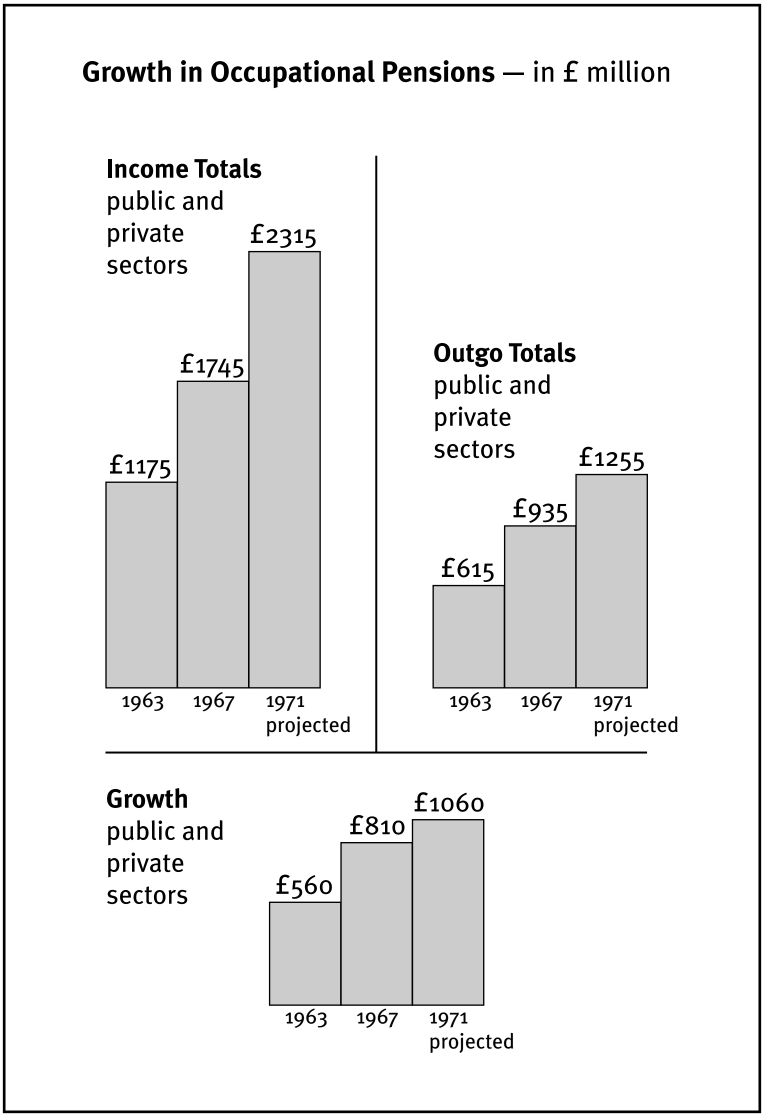
Saving for Democracy

In arguing that the occupational pension schemes should be allowed favourable terms for contracting out, the insurance companies and the pension funds have pointed to the large amount of new saving they have generated—over £800 million a year, or two-fifths of all private saving in 1967. Government spokesmen have seemed to agree that occupational schemes are important for this reason and that the contracting-out terms are designed to enable them to continue. The new emphasis on private savings is considered by occupational pension spokesmen to indicate a substantial change in attitude by Mr. Crossman and his advisers, and to represent a victory, or at least a decisive advance.

There is nothing sacred about 1967. It happens to be the last year for which the Government Actuary reviewed the development of the occupational pensions. Government spokesmen have too often argued from a "still" rather than a moving picture, which may have suited their case but conveyed a misleading impression. The occupational schemes have loomed larger in the national economy than speeches inside and outside Parliament have indicated.

In 1963, the year of the previous Government Actuary Survey, the figure was much smaller, only £560 million. At this rate of expansion, it would have been getting on for £950 million in 1969 and exceeding £1,000 million in 1971. Table D shows the income and outgo of the schemes in 1963 and 1967 and the "projection" to 1971. If any readers are members of occupational schemes they may note with satisfaction—and, if not, with envy—that

(a) employers contribute about three times as much as employees
(b) the total contributions added about a third of each year's new contributions in interest—£480 million in 1967, up from £325 million in 1963
(c) the interest earned in each of the two years was itself almost enough to pay the pensions—up from £365 to £570 million,


Growth in Occupational Pensions — in £ million
Income Totals
public and
private
sectors
£1175
£1745
£2315
1963
1967
1971
projected
Outgo Totals
public and
private
sectors
£615
£935
£1255
1963
1967
1971
projected
Growth
public and
private
sectors
£560
£810
£1060
1963
1967
1971
projected

although there have also been other benefits and administrative costs

(d) the pensions in the private sector doubled in the four years, 1963 to 1967; in the public sector they rose by a third: private sector pensions are more recent (mostly from the 1930s) than public sector pensions (many began in the nineteenth century)

Table D shows what the income and outgo *would* be in 1971 if they went on rising as they did between 1963 and 1967. (In practice some of the items would rise faster, others more slowly.) Total contributions would rise to £1,680 million, interest to £635 million, total outgo (pensions, etc.) to £1,255 million, leaving a net increase in the fund, that is, a net increase in private savings, of £1,060 million.

"*Would* be." But they will be less in 1971 if Mr. Crossman's Bill is passed and the new scheme is introduced. Some occupational schemes will slow down, and some will shut down. There have been plenty of "assurances" about the safety of *past* benefits in national and local government (which are meaningless—unless the Government were contemplating confiscation) but no "assurances" about *future* benefits, which will probably be less than they otherwise would have been. Here again we are in a world of projections based on working assumptions which, if they are wrong, as they often are, will make the figures different, perhaps very different, from those expected. In 1961 the Government Actuary estimated that 2¼ million employees would be contracted out of the graduated scheme: in the event the number was over twice as much—more than five million. In 1969 it was estimated that 10,000 out of 65,000 occupational schemes may be closed down. They will probably be the smaller ones, so the loss of new savings will be proportionately less. But small schemes have often grown larger. And schemes that keep going would be changed so that the flow of new saving will fall away.

The Government concedes that the rate of *increase* in occupational pension saving would slow down, at least in the early years, given the amount of contracting out likely on the terms it has announced. The economics of saving are not as simple as the pension or the Government spokesmen have seemed to suppose. There can be differences of opinion about the effect of contracting out on private occupational pension saving. It has been argued that, initially, and probably in the long run, more contracting out would either raise the amount of saving[1] or reduce it.[2] And it is also possible to argue

1. D. Lomax, "Pensions: The major economic issues," *The Times*, 17 November, 1969.
2. T. Atkinson, "Pensions: The savings issues," *The Times*, 4 December, 1969.

Table D. Growth in Occupational Pensions 1963, 1967, 1971 (£m.)

	1963			1967			Projection 1971		
	Private	Public	Total	Private	Public	Total	Private	Public	Total
Income									
Contributions									
employees	120	110	230	190	155	345	260	200	460
employers	335	285	620	525	395	920	715	505	1,220
Total:	455	395	850	715	550	1,265	975	705	1,680
Interest earned	240	85	325	365	115	480	490	145	635
Total:	695	480	1,175	1,080	665	1,745	1,465	850	2,315
Outgo									
Pensions	125	240	365	250	320	570	375	400	775
Other benefits	140	110	250	210	155	365	280	200	480
Total:	265	350	615	460	475	935	655	600	1,255
Growth in invested funds	430	130	560	620	190	810	810	250	1,060

Sources: 1963 and 1967: Government Actuary's Surveys.
1971: projection at rate of expansion 1963 to 1967.

that a fall in the rate of saving through occupational schemes would not necessarily reduce *total* saving. The Government, by accumulating a surplus in the national insurance fund, or more generally through the budget (by raising taxation or borrowing more than it spends), would or could compensate, or more than compensate, for the loss. Professor E. Victor Morgan of the University of Manchester and Professor Jack Wiseman of the University of York,[3] for example, have argued that an increase in occupational schemes with funds (civil service pensions have no funds: they are paid out of taxes) would probably increase total saving, but that an extended state scheme that was only partially funded (and partially paid out of current contributions and/or taxes) might also possibly increase total saving.

Not surprisingly the Government has fastened on the *total* saving question. Mr. Peter Shore, the Minister without Portfolio and Deputy leader of the House of Commons, who replied to a debate in the House of Commons on 4 December, 1969, in the absence of Mr. Crossman through illness, claimed that total saving would not decline in the early years because much more money would come in contributions than would go out in pensions, and that the excess would be available for investment.

The total of saving is significant because it affects the total demand for goods and services, the general level of output and government budgetary policy. If savings fall away, consumption is likely to rise; and since Keynes the reflex reaction of government is to increase taxes in order to avoid inflation by keeping consumption down. At least this is the theory of some macro-economists,[4] who favour fiscal (tax) policy as the primary method of regulating the economy. (Whether it is a correct theory is another matter: for various reasons, not least that increased taxes can produce *more* consumption in the anxiety to avoid still higher taxes, the fiscal theory of economic management has been giving way to the monetary theory of economic management. This is led by Professor Milton Friedman of Chicago University and is gaining acceptance among British economists. It states that the economy is best regulated through the volume of money.)

But whether total saving is higher or not, what is also important—perhaps even decisive, since the argument on total saving is debatable—is *who owns the saving*—the people or the Government. A democracy requires gov-

3. Appendix to *The Future Relationship of State and Occupational Pensions,* National Association of Pension Funds, September, 1968.

4. Macro: total. Macro-economists think it important to study *total* output, *total* expenditure, *total* consumption, *total* saving, etc.

ernment to be disciplined by non-governmental sources of power and influence, which rest on ownership. If less saving is done by individuals and more by government, the State becomes more powerful and individuals less powerful. If corporate saving increasingly comes under government control, more money is put into—what? So-called gilt-edged stock to bolster government's weak credit status, with the interest of potential pensioners a poor second? Or into industry where it may earn more but get government entangled in business enterprise?

The savings argument has been discussed largely in its monetary/fiscal effect on the economy. Its structural effect on the centralisation and dispersal of power, which is essential for democracy, is more discernible and more fundamental. The earnings-related state pension scheme is probably vulnerable on the financial damage it would do the economy; it is unquestionably vulnerable on the political damage it would do to democracy in Britain.

CHAPTER XI

The Contract of the Generations

Since it became evident that, by bad luck and/or mismanagement, the effort to fund the State pension (and thus to create financial and legal rights to the pension) had to be abandoned, and the pretence that it was funded was recognised as Aneurin Bevan's "myth," the absence of funding has been transformed from a sad necessity into a lusty virtue. And it has been justified by two "explanations."

The first was that funding was not necessary for state pensions since the continuity of the State was a sufficient, if not better, guarantee of the pension: it could use its ultimate sanction as a revenue-collector and tax-gatherer. And unfunding was in some circumstances better than funding because the pension could be paid without waiting for the fund to be built up. This was the reasoning behind the 1957 National Superannuation proposals and the 1961 graduated scheme.

The second explanation has the more majestic title of "the contract of the generations." One generation pays national insurance contributions and taxes that go out in pensions to the previous generation, and it is in turn repaid by the contributions and taxes of the succeeding generation. Or, as the schoolboy was taught to add at the end of geometric proofs, *quod erat demonstrandum:* "which was to be proved."

These "explanations" do not so much elucidate as rationalise. There may be circumstances in which partial funding or even no funding is financially convenient, but to suppose that it is to be preferred to full funding is naïve. In almost every Western country where it has been tried, funding has broken down because it was *politically* difficult to maintain. If it were possible for the State to run an actuarially-based scheme in which a fund were built up to pay the pension, it would be a better guarantee for the pensioner than a state pension "guaranteed" by contributors and taxpayers unborn. It is because politicians everywhere have failed to run insurance as effectively as it is run by private organisations that they have resorted to "pay-as-you-go" and "the contract of the generations" as the best *they* could do, *not the best that could be done.*

Politicians are apt to resort to "assurances," "undertakings" and other expedients to disarm critics and avoid questions they cannot answer. They should have learned from history to display more humility. They can "bind" themselves, but that is hardly a guarantee since they may be out of office within a week; or they may "commit" the Government, although that is hardly more reassuring. But to pretend to commit politicians and governments that follow 10 or 20 years later is hardly to be taken seriously as a *guarantee.* The reason is not merely that politicians in difficulty proliferate "assurances" that can plausibly be ignored by the plea that circumstances they could not foresee had changed. Even more, the circumstances may indeed have changed, so that the "assurances" could not be honoured even if they had intended to do so.

It is presumptuous for a politician to suppose that personal "undertakings" are a substitute for power to enforce them. No doubt the word of a Minister of outstanding quality—a Pitt, a Gladstone or a Churchill—may outlive his term of office, or his life, for a time. But the history of every country is littered with "undertakings" that lived only so long as they were politically convenient. What is remarkable is that they should be accepted at their face value.

No one in Parliament who knows anything about the 25 years history of British state pensions really believes that the earnings-related pension would be built up in twentieths over 20 years from 1972 to 1992. To listen to Mr. Crossman explain the formula to an audience of journalists at a press conference—"in the first year the pension will comprise one-twentieth of the new and nineteen-twentieths of the old, in the second year two-twentieths of the new and eighteen-twentieths of the old, . . ."—is to imagine oneself at a congress of witch-doctors competing for the year's most potent placebo.

For how long will governments review the State pension every other year? The answer is as long as it suits them; or as long as they cannot politically do otherwise. The Bill contains 129 clauses, many with sub-clauses. How long will they remain the law if they survive unchanged into an Act? The only answer is: no one knows, not even Mr. Crossman. The substance of some were changed even in the short period since they were announced in the White Papers: employers, for example, are to pay 7% of their total payroll, not 6¾%, a "little" change that will add millions of pounds to their costs—or housewives' shopping bills. But the whole document is filled with a spurious flavour of certitude that would not survive a year if circumstances changed and made any part of it politically dispensable.

The Bill may be regarded at best as a bundle of good intentions and at worst as a bunch of promises that look inviting in an election year. The only guarantee that the pensions displayed would be paid is prospective pensioners' personal judgement about the conflicting interests in 1992 and beyond. Not least among them will be the sheer number and voting power of pensioners and the sheer number and voting power of people in work—complicated by the children at school and university who will also be costing the earners a lot of money.

As a rough guide to these numbers Table A (p. 139) shows age-groups under 15, 15 (16 from 1976) to 64 (60 for women), and 65 and over, and Table E the working population. The middle group is estimated to grow only from 25½ million in 1972 to 26⅓ million in 1981, an increase of 800,000 (the men from 16.6 to under 17 million, an increase of 350,000, the women from 9 to 9.4 million, an increase of about 450,000). The under 15's are estimated to grow from 13.2 to 15.4 million, or by 2.2 million, and the 65's and over from 7.1 to 8.1 million, or by 1 million. Who can say with certainty that the earners of 1992 will gladly support the pensioners of 1992 in the superior stations to which they deemed fit to vote themselves in the 1970 or 1971 General Election?

The rumblings of revolt have been heard in Belgium, Germany and the

Table E. The Working Population of Britain, 1939–81 (million)

	Men	Women	Total
1939[1]	14.6	5.1	19.7
1948[2]	15.7	7.1	22.8
1952	15.9	7.4	23.3
1956	16.2	7.9	24.1
1960	16.2	8.2	24.4
1964	16.5	8.7	25.2
1968	16.3	8.9	25.2
Projections			
1972	16.6	9.0	25.6
1976[3]	16.6	9.0	25.6
1981	17.0	9.4	26.4

[1] Men 14–64, women 14–59, excluding private domestic servants. [2] 15+. [3] 16+.

USA. It will no doubt grow in time, perhaps when and where "social security" takes 15% or more of their earnings from the young and middle-aged. Initially they may demand lower retirement ages at which to stop paying and start sharing in the largesse, or refuse (or avoid) higher contributions. In Britain the proportion would be 13¾% in 1972 but SET would raise it to over 20%. The breaking point is not postponable indefinitely. The resistance to periodic increases in "social insurance" contributions will begin all the sooner when the "contributors" realise they are paying not insurance contributions but an income tax.

The British standard of living in 1970 rests partly on the capital bequeathed by the Victorians and Edwardians. The Crossman scheme would divert Elizabethan saving away from the Charlesians. Gratitude may not be their strongest emotion.

There are other uncertainties. The 18-year-olds now have votes. Will they want more free university post-graduate training for well-paid jobs in preference to large pensions for people who have lived their lives? Who knows how much government will be required to spend on maintaining and improving "amenity" under the influence of persuasive writing, such as that of Dr. E. J. Mishan, which is gaining rapid ground? New medical discoveries will create insistent demands for government provision of equipment to save life, and drugs to stop or multiply it. The conquest of disease could accelerate the increases in the number of the retired. And suppose Britain joins the Common Market after all?—or Europe joins a North Atlantic Union? Whom is Mr. Crossman "binding" or "committing" then?

British politicians who inherit the incubus of being virtual defaulters on government borrowing (£100 invested in Dalton's "gilt-edged" Treasury stock in 1947 is now worth £32 at present day values and about £15 at 1947 values) must be strong men indeed to make promises based on the creditworthiness of governments. Social security promises have also been broken in Sweden, in the USA and elsewhere—all of course with convincing show of good reason.

Private schemes may also run into difficulties. But there is a significant difference. The choice in practice is between the political risk in a pension scheme with no reserve fund and diffused commercial risks in private schemes with reserve funds. Let the choice be explained in these terms. And let the people decide.

Not least, let it be clearly understood that "right" (to the pension) and "contract" are two more good words that have been made misnomers. A "right" to a pension that a man acquires by saving for it is unambiguous. The "right" a man has to an income when he can no longer work is of a different kind. The word has been re-defined to mean a moral right or claim on society. But transfers of income from one age-group, or class, or generation, to another represent decisions by one group, or class, or generation, to help another in need of help. No group, or class, or generation has a "right" in any absolute sense. It is the existence of need that creates a moral "right" to help in civilised, humane society. The well-fed man does not have the same "right" as the hungry man, the well-heeled pensioner as the shabby pensioner. People who accept from others what they cannot morally justify by need are taking not by "right," nor even by charitable grace, but by immoral acquisitiveness.

In civilised parlance "contract" means a voluntary agreement between two parties each of whom thinks it will gain. There is no such voluntary agreement between the generations on pensions. Indeed, there can hardly be one since future generations cannot be consulted; and if they could they would hardly agree since the terms are loaded against them. In the Crossman scheme each generation would have to pay a higher proportion of its pay to its pensioners than the preceding generation. In 1972 the cost for pensions alone would be not far short of 10% (employers' and employees' contributions) and it could rise to 12% by 1982 and 15% in 1992—figures approaching the bloated proportions in Germany. This is not a voluntary agreement, or a mutually advantageous bargain. It is an act of irresponsible abdication.

CHAPTER XII

National Insurance and the Civil Servants

Seeing "the Minister" flanked at press conferences during 1969 by six to ten senior civil servants, or accompanied by one or two at dinners, was dangerously conducive to the impression that "the civil service" was behind him, not only as technical advisers and executants but also in spirit. Such a deduction, although it may have been drawn unconsciously by some in the company, was, of course, wholly erroneous. They were there to help the Minister with information or to help answer questions, although he sometimes called on them to reply or comment. (How far this is a constitutional novelty I leave to others.) But they were not there as supporters of Mr. Crossman's "national superannuation."

Nevertheless, as they sat facing the audience, properly impassive (except in an unguarded moment when a smile or a frown might have indicated reservations), the observer could not help wondering what they thought of it all. On a far-reaching social reform that has evoked doubts among supporters as well as opponents, the able people who man the senior offices of the Departments of State must have private opinions. But they cannot express them in public, short of losing their jobs and sacrificing their careers—and losing their pensions if they resigned for private employment before the age of 50. (Two distinguished civil servants, Sir Leslie Rowan and Sir Henry Wilson Smith, resigned soon after 50 to enter industry.) Yet civil servants know better than most people what is being prepared. For everyone there comes a moment when their duty to their employers (and their careers) conflicts with their duty to their country (and their consciences). For men and women designated "public servants" whose work—in the words of Sir William Armstrong, head of the Home Civil Service—yields "the traditional satisfaction of service to the community," the conflict must be particularly acute.

Obvious difficulties would be created if a government had to work with senior civil servants out of sympathy with their policies or disquieted by their methods: and the 1964 and 1966 governments brought in academics and others, as temporary civil servants, for a specific measure or period although some did not stay long. If resignation is unnecessarily drastic, and transfer damaging, there may be a strong argument for allowing conscientious civil servants to make their doubts known in public (perhaps in hearings on legislation in process, as in the USA, or on more informal occasions) as well as in private memoranda to the Minister, so that Parliament, the press and the public have the opportunity to weigh them. There may be a thin dividing line between the furnishing of information, the provision of opinions and the statement of judgements by civil servants. The first is common, although information is less easily accessible to outsiders than to insiders in Britain. The second is not unusual. During the recent General Election in Australia, the Liberal/Country Party government may have been caused some embarrassment by the testimony to a Senate Committee of an official that the calculations used in proposals for compulsory health insurance, adopted and advocated by the Labour Opposition as a major election plank, were technically accurate. The third is rare, at least in Britain. In the USA there has recently been the remarkable example of a senior civil servant, the Chief Actuary, whose conscience has driven him to declare in public his doubts on social insurance developments.[1] His courage was the more remarkable because of criticism that he was at fault in so doing.

The traditional rigid view that the prestige of the British civil servant rests not only on his widely acknowledged integrity but also on absolute confidentiality, even about matters not risking national security, nevertheless appears to be thawing out. Civil servants were known to have had talks with Labour leaders in 1963 and 1964 near the end of the last Conservative Government, and similar consultations may now be taking place in reverse. So far from being condemned they have been approved on the ground of the desirability of continuity in the event of a change of government.

If resignation is too drastic, silence may be misleading or dangerous. A Minister may imply that his officials support him, but since the officials cannot speak the country cannot judge. On the crucial terms on which occupational schemes would be allowed to contract (*partially*) out of the earnings-related pension,[2] Government spokesmen have referred to the Government Actuary as though to an extra-governmental tribunal, and have left the im-

1. Chapter XIII.

2. The observer must record the remarkably dispassionate independence that has characterised the contributions to Commons debates of Mr. Douglas Houghton, the Chairman of the Parliamentary Labour Party (and Minister for the Co-ordination of the Social Services

pression that he would approve what the Minister was doing. In the 4 December debate, for example, Mr. David Ennals, the Secretary of State, said:

> . . . what should be a fair amount of contribution reduction to match up with the 1 per cent of pension abatement? This was obviously not a matter on which we, as laymen, could take a snap judgement. We therefore took the advice of the Government Actuary who, as an independent figure, reached his own conclusion. Sir Herbert Tetley's . . . conclusion was that a fair amount of contribution reduction would be 1.25 per cent [for the male employee and his employer separately]. This, he said, would be fair for the average scheme.
>
> We . . . decided to move beyond what the Actuary had thought was fair, and we moved to 1.3 per cent.

(At a press conference on the White Paper detailing the terms for (partial) contracting out, Cmnd. 4195, in November, 1969, Mr. Crossman also referred to the Government Actuary, sitting several places away on his right, as an independent expert.)

The Government Actuary had not said that the reduction in contribution should be 1.25%—which the Government then decided to better out of consideration for the occupational pensioners. Terms that were "fair" to the "average" (contracted out) scheme could massacre half (or more) of them—depending on where the arithmetic average came in the "array" of all the schemes. If only MPs of above-"average" intelligence were allowed to continue their membership of the Commons, half (or more) would lose their seats. If only Bills of "average" value to society were passed by Parliament, half (or more) could be scrapped. And the country might miss them less than it would half the occupational pension schemes.

The 1.25% was calculated by supposing that in the first years of the scheme newly-invested pension funds would yield 7½% a year in interest and the average yield on interest re-invested during the period until the employees retired was 5½%, that death rates would be common to all schemes, and that administrative expenses would amount to 7% of the contribution "abatement." Cmnd. 4195 said the Government did not challenge the Government

from October 1964 to February 1967). When on 4 December, Mr. Ennals, the Minister of State, said: "My right hon. Friend could, if he had wanted, have steamrollered our State scheme through . . . ," Mr. Houghton rebuked him: "My hon. Friend says that the Government could have steamrollered through a scheme without any contracting-out arrangements. Surely he knows that would have been politically impossible?" *Hansard,* Col. 1723.

Actuary's "advice" (the 1.25% "abatement") but questioned the assumptions, which it thought were "too tightly drawn" because the average scheme would have "no financial inducement . . . to contract out" and they would be "particularly unattractive to schemes with a membership older than average" (so that contributions were fewer and pensions larger than the "average").

However you read it, this comment on the Government Actuary's "advice" seems to suggest a difference of opinion, and implies a criticism. The difference is broadly measured by the decision of the Government that the "abatement" should be 1.3%. The implied criticism is that the Government Actuary's terms would have borne harshly on the "average" or slightly below-"average" scheme and that the Government had gone to 1.3% to help schemes with rather higher than average costs.

This show of generosity was gratuitous. Why 1.3%? If the Government was concerned about the occupational schemes, as it kept on repeating, why did it not go higher—to 1.4% or 1.5% (the figure suggested by the pension experts)? Because, if it had, more employees would have been contracted out and the contributions to the State scheme would have been less; the contributions from employees not contracted out would, therefore, have had to be raised earlier than the Government wished, and either the taxpayer's subsidy would have had to be higher than the 18%, or the Government would have had to reduce the pensions it had been promising. The whole edifice would have tottered and collapsed. On the other hand if too many occupational schemes closed down or dried up, private savings would slow down; the Government was then in two minds about whether it would regret the development or whether, as Mr. Peter Shore, another spokesman, said, the temporary surplus in the National Superannuation Fund would make up for it.[3]

In short, no issue of principle had been solved at all in all the palaver from January to November. The dilemma had not been removed because it was ineradicable. The notion of "partnership" was at last seen as the shallow charade it was: the contracting out terms would *have* to harm many occupational schemes or the Government scheme would not work. The relationship between the two was not cosily complementary but cruelly competitive. At last it became clear to all who before had been blind, or who did not wish to see, that money for state pensions must be taken from money for private pensions. The time for self-delusion had passed.

3. This reply misses one of the most important aspects of the argument discussed in Chapter XI.

But the Government cannot shuffle off blame to the Government Actuary. It was not his assumptions that were "too tightly drawn," but, as he politely put it, its terms of reference to him. In the first White Paper of January it said that the reduction in contributions to be paid for contracted-out employees should be linked to the reduction in pensions on the basis of *average* "commercial" cost. It is true that the three main elements in commercial cost are interest, death rates and expenses. But, with much respect for the able man who is the Government Actuary, these considerations are not merely "similar in many ways" to those used in assessing premiums for self-insured pension schemes. They are substantially the *same* considerations, but they have very different effects. A life assurance company which applies a common premium to be paid by all employees (and/or their employer) in a pension scheme is averaging the varying risks of the members depending on their ages, health, etc. If there are sizeable numbers, the risks cancel out for each insurance company running an insured scheme or each firm running a self-insured scheme, and employees who are older or less healthy than the average benefit at the expense of the younger and more healthy. This is a kind of rough, poetic justice, justified also by the administrative costs of otherwise calculating premiums separately for each employee. The internal subsidy is relatively small and acceptable because administrative costs per employee are lower in a group than for an individual (and the larger the group the lower the cost per employee).

But applying "averaging" to different *schemes* is very different from applying it to different *individuals* within each scheme. Applying an average premium to a scheme means that some members subsidise others. Applying a single contribution abatement to all schemes means that some will be able to carry on easily and others will not be able to carry on at all. It may be said: so much the better—they are not big and healthy. But pension schemes, like humans, are not static; they change over time. A small scheme today could thrive in three years.

The argument is not whether the Government Actuary's assumptions of 7½ (5½)% for investment yields, mortality rates, and 7% costs were too high or too low. *Any* such assumptions of *single* "average" figures applied to all pension schemes would make it impossible for some of them to continue. Rising from 1.25% to 1.3% may save some schemes but still kill off many and their unknown potential growth in the years to come. That is part of the price of national superannuation.

The Government has not shown magnanimity towards occupational pensions by allowing more generous contracting out terms than those calculated as "fair" (another question-begging word) by the Government Actuary. Its terms of reference were bound to produce "advice" that would enable them to kill off growing occupational pensions and private savings. If, as happened, the Actuary's "advice" was "too tightly drawn," Ministers could appear gracious and still repress the occupational pensions. If it had been more generously drawn they could have pleaded that employees not contracted out would suffer. National Superannuation enables Mr. Crossman to say: "Heads I win, tails you lose." The moral is that *national* superannuation is a strait-jacket that should not be forced on private schemes of varying sizes, and stages of development. It should be discarded as having no place in a variegated society.

CHAPTER XIII

Overseas Exemplars—or Warnings?

Mr. Crossman points to other countries that have earnings-related national insurance pension schemes to bolster his case for earnings-related pensions in Britain.

International comparisons are precarious because no two countries are alike. It is easy to find countries that have done what one considers desirable. For some years now the international "league tables" of tax burdens and social security expenditure have been exploited by everyone to "prove" everything. In some countries total taxation is heavier than in Britain (e.g. France and Germany, Sweden and Holland), in others lighter (e.g. the USA and Canada, Australia and Switzerland). Some countries spend more on state pensions than Britain, others less. So what? It does not follow that taxes in Britain should be lowered or raised, or social services enlarged or reduced. All that such cases show is that in *their* social and economic conditions such-and-such social services or methods of payment may be desirable and are apparently practicable. It does not follow that they would be practicable in Britain, nor that we should copy them. What matters more than a comparison with other countries is a comparison with Britain in recent times. Taxpayers in Britain will not willingly pay more taxes or social security contributions merely because the citizens of other countries do so. The case has to be demonstrated in terms of British conditions, attitudes and preferences. The question is: is government likely to spend £1 or £100 million additional taxes more wisely than the taxpayer?

The choice of countries as examples is also significant and not always convincing. The National Association of Pension Funds in a 1968 report[1] thought that a brief review of "developments in other countries of the Western world" was relevant; this was "of major interest because of Britain's application for membership of the Community"; and Sweden and the USA

1. *The Future Relationship of State and Occupational Pensions,* September, 1968.

were added "because of the important developments in their countries in recent years." It therefore briefly reviewed Belgium, France, Italy, the Netherlands, Sweden, the USA and West Germany.

If Britain joins the EEC it does not follow that she must adopt its pension systems, good, bad or indifferent. The EEC might with equal reason adopt ours, if it were better. Harmonisation has hardly begun, and if other countries act unwisely we are hardly wise to follow them. Germany's difficulties were mentioned in the NAPF report but not Sweden's. The USA account is now out-of-date. And there was no reference to New Zealand or Australia at all, two countries with which Britain might be thought to have more in common than with others in the NAPF list.

What has been happening in Germany, Sweden, the USA and Australia?

Germany (West)

Since 1957 Germany has in several respects been operating a pension scheme more similar than any other Western country's to that envisaged by Mr. Crossman. The pension is based on the employee's average life earnings and on the national average earnings; it is financed by earnings-related contributions by employee and employer and by the general taxpayer. Pre-1957 pensions are revised annually with the upward movement of wage-earnings generally.

The costs are higher than those contemplated for the Crossman scheme. In 1968 German employees paid 7% of their earnings and employers 7% of their total payroll; the Government provided about a quarter of the combined 14%. The corresponding UK figures in the first year would be 4¾% and 4½% making a combined contribution of 9¼%, plus nearly a fifth (18%) of the 9¼%, with increases after a few years.

What such a system can lead to is vividly shown by the German experience. The employee's contribution represents earnings postponed until retirement, although they may partly be passed on to consumers. The employers' contribution is probably passed on to consumers in large part. And the Government's contribution is provided by taxpayers, direct and indirect. The Federal Ministry of Labour has calculated that 60–80% of the Government's contribution is provided by the employee, that is the future pensioner. (This is rather like the position in Britain where most people in the middling ranges of income pay taxes within 10% or so of the value of their social benefits.)

Calculations by the Ministry of Labour and private insurance organisations suggest that from 1973 employees will be paying around 20% of earnings for pensions insurance. Dr. Wilhelm Claussen, State Secretary in the Federal Ministry for Labour from 1957 to 1965, estimates[2] that, in addition, sickness insurance takes 10%, unemployment insurance 1½%, direct taxes 10%, and indirect taxes a further 10%. Thus "social security" paid for by taxes of all sorts would take about half of employees' income. What would British workers think of following this example? Yet Germany is a country to which advocates of higher taxation and expanded social insurance in Britain point to show what is possible and desirable.

The system has worked reasonably effectively since 1957 because the high rate of growth in incomes has yielded contributions sufficient to pay pensions. But the pension system is becoming a bloated form of saving in which the politically-promised pensions of the future seem to be increasing faster than those of the present-day contributors. Dr. Claussen calculates that a young man who joined the German State scheme in 1968 can expect to receive after 35 years a pension on retirement of 46,600 marks a year (about £4,900). Adjusting the pension to increases in wages at the rate of 4–5% increase a year over 10 years raises it to 72,300 marks (£7,600). Such large amounts would require very high contributions and taxes, though whether they are paid depends on political promises rather than financial investment.

In the meantime, German pensions load industrial costs and living costs. Even more fundamentally, they probably distort the structure of German saving and property in favour of paper claims on *future* generations, who may not be prepared to accept obligations transferred to them from the past, and away from more tangible forms of ownership (such as homes) or claims on current production (stocks and shares) that create a more secure foundation for independence.

In 1911 Lloyd George almost slavishly copied Bismarck. Whom is Crossman copying?

Sweden

The consequences of accumulating contributions in excess of current pension disbursements is seen from the experience of Sweden, with which a British Labour Government may feel affinity.

2. "Provision for old age in Germany," *Progress,* No. 4, 1968–9. I am also indebted to Dr. Claussen for a talk in Paris, May, 1967.

Mr. Crossman says he has abandoned the 1957 notion of creating a National Pension Fund intended to earn the high returns earned by private investment funds, help modernise industry, and accelerate national economic growth (and, though this was not over-emphasised, give government a say in some major firms and industries). But in the early years of the 1972 scheme a surplus would develop because the contributions would be fixed high enough to cover increases in pensions. It could be about £250 million by 1978 if current forecasts and projections of contributions income and pension outgo, and earnings and numbers (partially) contracted out are not far wrong. How would it be invested?

If it were invested to serve the future pensioner it would be put into "growth" industries. But this would introduce political influence into industry. If it were used, like the National Insurance Fund, to buy gilt-edged stocks and other government securities it would ease the Government's management of money markets and the economy but give a low place to the interest of the future pensioner.

Whatever is decided by Mr. Crossman, or Mr. Roy Jenkins, or Mr. Harold Wilson in 1970 or 1971, they are not politically immortal. The men who come after them may think differently. The possibility that a sizeable superannuation surplus could be accumulated, at least for a period, remains. And it is all the stronger when flat-rate contributions are replaced by graduated contributions, for this reform replaces a floor by an unlimited ceiling. They may graduate contributions to only 50% over national average earnings in 1972, but that proportion is not sacrosanct. In West Germany it is 100%. It could be 100% in Britain in 1976 or 1984. And that would enlarge the coverage from 90 to perhaps 97 or 98% of employees.

Since other forms of political control over industry, not least conventional nationalisation, have fallen out of favour, the use of pension reserves cannot be dismissed; and assurances or disavowals by politicians in temporary power cannot be accepted because they do not bind their successors. Nor is it much comfort to the prospective pensioner to know that his contributions are put into government borrowing to bolster its weak creditworthiness resulting from inflation and the refusal of investors to put their savings into insecure government "securities."

Sweden shows the consequences when a government can lay hold of funds not immediately required to pay for current social services. In 1960 a new earnings-related pension, financed by contributions paid by employers (9.5 of earnings in 1969, higher in 1970) was introduced to supplement the flat-rate pension financed by general taxation. The purpose, as in the UK, was to cushion the fall in the standard of life when earnings cease at retirement (normally at 67 years, not 65).[3] For a lengthy number of years the incoming contributions were to exceed outgoing pension costs. By 1970 the fund was expected to reach 40 billion kronor, (nearly a third of the Gross National Product—132 billion kronor in 1968). Contribution income rose from 2,400 billion kronor in 1964 to an expected 6,500 billion in 1970, pension outgo from 100 billion to 900 billion. Interest on the fund is itself almost enough to pay current pensions.

The fund has become a dominant element in Swedish saving and investment; it is the largest savings institution and the largest supplier of credit. In 1970 it is expected to furnish 7,500 billion of (net) lending, as much as all other Swedish credit institutions put together. Private saving for life assurance has sagged, although other forms of private saving may have risen with rising incomes.

In the near future the National Pension Fund's assets will be as large as the commercial banks', and larger if contribution rates are raised. So far its investments and lending have been mainly in government securities and housing.

It is easy to see pressure mounting for some of the accumulated fund in the UK to be applied to housing if continuing rent restriction discourages private investment. In 1956 a Fabian Society pamphlet hopefully proposed:

> The money would be earmarked for . . . loans at low interest rates to the nationalised industries . . . and to local authorities for cheap housing.

A writer in *Co-operative News* in 1957 staked an uninhibited claim:

> A proper objective for national pension fund trustees might well include considerable commitment in the Co-ops. . . .

In Sweden the increasing supply of National Pension funds and channelling of private saving to the State and away from private pensions may impel the direction of National Pension funds to industry. Dr. Börje Kragh, Director of Konjunktur-institut in Stockholm,[4] has examined several methods of channelling National Pension funds to industry through the commercial banks with varying degrees of Government control, freedom to undertake risky investment, ability to reconcile profitability, risk and security,

3. The Swedish system is more civilised than ours. The pension may be drawn at 63 with a deduction of 0.6% for each month short of 67; and the converse with deferments.

4. "Sweden's National Pension Insurance Fund," *OECD Observer,* Organisation for European Co-operation and Development, April, 1968.

and susceptibility to pensioners' importunities. Some financial institutions would be less objectionable than others. The prospect of massive funds that could be used to bolster government securities, finance Council housing, support co-operative trading, invest in the governments of developing countries, or bolster emerging nations wooed by the Soviet Union would encourage and excite many well-intentioned, warm-hearted people in Britain. The prospect of a government-controlled investing agency channelling as much finance as all other British credit institutions put together, and replacing commercial competition by political dominance of saving and investment, should also alarm, dismay and arouse people to opposition.

What are the chances? The Parliament in Sweden has, after all, supported a government proposal for a government investment bank. The Parliament in Britain would have recurring opportunities and temptations to use "national superannuation" for political investment, and Mr. Crossman's disavowal of a surplus may, perhaps, not be accepted by future governments.

USA

Recent developments in American social insurance show that it has a propensity to grow for reasons that have little to do with human needs or compassion but much with sociological and political philosophy on the alleged virtue of universality, centralisation and the beneficence of government.

The national pension system, Old-Age, Survivors and Disability Insurance (OASDI), known generally as "social security," was introduced in 1937. It provides monthly pensions on retirement (or invalidity) to insured employees (or self-employed) and their surviving widows and other dependants. The pension is paid at 65 (or at reduced rates at 62) to pensioners, at 62 to wives (or dependant husbands), up to 21 to children at school, and to mothers of eligible children. The basic pension is related to the average monthly wage, calculated since 1950 up to the retirement age of 65 (men) or 62 (women), by a formula which provides 71% of the first 110 dollars of average monthly wages and 26% of the next 540 dollars, with a minimum of 55 dollars a month. Periodic increases in the basic pension have rather more than kept pace with prices.

Wives and children receive pensions of 50% of the basic pension, surviving children and their mothers 75%, widows 82½%.

The pensions are financed by equal contributions (described as payroll *taxes*) from employers and employees amounting to 8.4% (1969/70) on the first 7,800 dollars of average earnings. There is no "Exchequer Supplement" from the general taxpayer.

The system is thus earnings-related and "pay-as-you-go" without an invested fund, and in basic respects comparable to that proposed by Mr. Crossman. But it exhibits characteristics that are warnings of what to avoid rather than exemplars to emulate. If run by men who value checks to governmental authority, independent initiative and a private sector as a standard by which to judge the government sector, it might be run with responsible restraint. It would then be adapted to economic, social and demographic (population) change and individual circumstances; financed by methods that clarify costs, so that contributors discipline demands for higher benefits; and it would be arranged to provide pensions that left scope and incentive to earn and save to improve on them. That might be the system at its best run by politicians of stature, dedicated to the proposition that personal liberty should be cherished next to the relief of need.

So it might be. But it is not. For some months a senior civil servant, Robert J. Myers, the Chief Actuary to the Social Security Administration of the Department of Health, Education and Welfare in Washington has been warning that the system is in danger of being inflated to cover everybody. The rising pensions would be paid for increasingly out of general taxation, where the cost would be less immediately noticeable than if they were financed by higher contributions. The combined employer-employee's contribution is in any event designed to be raised from 8.4% of earnings in 1969–70 to 9.2% in 1971–2 and to 10% thereafter.

How much the basic (earnings-related) pension should be is a matter of judgement. It might be thought sufficient if only a small proportion of pensioners required to supplement it by what in the USA is still called public assistance. In 1969 this proportion was 7%. The solution might then appear to be to ensure adequate supplementation for the 7%.

This is not enough for "the expansionists." Like their opposite numbers in Britain, though with apparently much less cause, since about 30% of British pensioners receive supplementation, the American inflationist wants pensions raised for the 93% who do not require supplementation to ensure higher incomes for the 7% that do. This hardly makes sense, especially, says Mr. Myers, since the small minority contains pensioners whose earnings in the 1930s slump were much lower than those of pensioners who came later.

But, again as in Britain, "the expansionists" are using a dwindling minority to justify compulsory saving through the state for the growing majority who are becoming more affluent. If they get their way, says Mr. Myers in a recent Paper published in Britain,[5] they will establish government "social security" as a virtual monopoly and in time eliminate private pensions. Their methods are to proceed by degree to hitch federal pensions up all round: to raise the maximum earnings on which contributions ("payroll *taxes*") are based from 7,800 to 15,000 dollars and then jack it up with rising earnings, raise the pension by 100% or to begin with by 50% which would vary not merely with *prices* but with earnings (which even Mr. Crossman does not promise to do himself), and add a government contribution of, eventually, 50% of the employer-employee contribution.

The effects would be to reduce private pensions, private saving and investment funds for industry, and to increase government investment in industry, bringing political regulation, control and ownership. Evidently the dangers that few recognise in Britain are being emphasised in the USA.

There is also an ironic contrast. "The expansionists" in the USA want more general tax finance for the "insurance" pensions; in Britain they want more contributions—from the higher-paid wage-earner of today and tomorrow. In the USA it is plausible to propose higher taxes because taxation takes much less of the Gross National Product (30%) than in Britain (38%). Plausible, but not therefore more desirable. Mr. Myers emphasises that one reason why "the expansionists" are working for larger tax subsidies is the difficulty of raising employer-employee contributions, and another that an increase in general taxes might not be noticed so readily and therefore be resisted less. In Britain Mr. Crossman is driven to argue the opposite: that there is resistance to general taxation but that more revenue might perhaps be found from social insurance contributions by promising the *quid pro quo* of pensions in return. There seems to be a running battle of wits between the British "expansionists" and the reluctant taxpayer.

The opponents of taxation subsidies—among whom Mr. Myers openly ranges himself—say they would weaken the controls over pension costs because increases in pensions would be voted by politicians in the hope that no one would notice the larger subsidy from general government revenue. But, they argue, under the contribution system, the costs of higher pensions are soon noticed. Not even Labour Members agree with Mr. Crossman that the British worker will not notice higher contribution deductions from his pay packet.

The last Secretary of Health, Education and Welfare under President

5. *Expansionism in Social Insurance,* Occasional Paper 32, Institute of Economic Affairs, 1970. I am indebted to Mr. Myers for periodic exchanges of information and views since 1961, and in particular for a long discussion in Washington in May, 1968.

Johnson is quoted by Mr. Myers as saying that the expenditure on these services, presumably in the main by government, should rise from 19.8% of GNP in 1968 to 25% in 1976. Mr. Myers observes:

> . . . we might wonder whether 25% is to be the ultimate level desired by the expansionists. Why not 30%, or 50% or more?

The expansionist philosophy, he suggests, might go on to propose a public food service since some people, especially teenagers, do not eat the ideal food although they could afford to:

> . . . why not have the government tell each person what they should eat, then provide it, and see that they eat it?

It is easy to demonstrate the logical absurdity of "the expansionists" in the USA and their soulmates, the universalists, in Britain. The Chief Actuary of the USA Social Security Administration has not been known as a critic of social insurance *per se.* He is evidently now alarmed that it is being expanded too far. In Britain that danger would become more likely if national insurance is changed from flat-rate to earnings-related by the National Superannuation and Social Insurance Bill, 1969.

Proposals for the reform of American social security are also made by an economist, Professor Colin D. Campbell.

> If past experience is a guide, the Social Security Administration will probably continue to propagate the insurance analogy while in practice paying less and less attention to matters of individual equity. . . . Because of the recent increases in payroll taxes and benefit levels, taxpayers and beneficiaries may become more concerned with matters of individual equity than in the past. Also, as the social security program departs further from the insurance analogy, its inaccuracy as a description may become better-known and it will no longer be acceptable. If so, the need for a more accurate rationale for the program will become more urgent, and social security will probably be headed towards a period of reform.[6]

Australia

Australia is rarely if ever quoted by the advocates of increasing governmental control of pensions. Yet in economic structure and social fabric she

6. "Social Insurance in the United States: A Program in Search of an Explanation." The passage is quoted from a typescript of the article, subsequently published in the *Journal of Law and Economics,* University of Chicago Press, October, 1969.

has more in common with Britain than other countries offered as models to emulate.

Australia has no national insurance. The "National Welfare Fund," at one time allotted a part of personal income tax as a social services "contribution," is now not a fund with independent, segregated income but a reservoir filled from general revenue. The old-age pensions (posted fortnightly by cheque) paid at 65 for men and 60 for women, are 26.5 dollars a week for a man and wife (about £12) and 14 dollars for a man or woman (£6 10s), and based on a means test. Of approximately a million people of pensionable age, rather over half (55% in 1968) have received pensions and rather under half have been excluded by the possession of sizeable income and/or capital. The recipients receive more than they would if pensions were paid universally without regard for income or capital. In addition pensioners receive medical services without payment, and other concessions in transport, rates, etc., worth on average over 5 dollars (£2 5s) a week.

A distinguishing feature of Australian social policy has been the periodic refinement of the means test to conserve resources for pensioners with least means and to avoid discouragement to self-provision. Since 1961 the separate means tests applied to income and property have been fused into a "merged means test" in which property exceeding 800 dollars has been valued as yielding a notional income of 10%. For some years, until 1968, the means test allowed a married couple of pensioners to own a house, its contents, a motorcar, 800 dollars in cash or other property, and weekly superannuation or other income up to 17 dollars (that is, the property equivalent of 8,840 dollars) and draw the pension in full. The capital value of income and property disregarded could amount to 30,000 or 40,000 dollars (£14,000 or £18,000), and the couple could receive tax-free income of 42 dollars a week (25 dollars pension, 17 dollars disregarded income), or about £20. A married couple could draw part pensions (and the associated "fringe benefits") if they owned 24,200 dollars of property as well as income from property (interest, dividends, rent on a second house). Contrary to a common impression in Britain the means-tested pension does not seem to damage private saving.

The view of Mr. T. H. Kewley, of the University of Sydney,[7] a close observer of social security in Australia, is that the use of means test for cash benefits may be one reason why "Australia has made comparatively good progress

7. Based on his book *Social Security in Australia,* University of Sydney Press, 1965, discussions in Canberra, August, 1968, and his monograph *Social Services in Australia,* Australian Institute of Political Science, 1969.

towards eliminating poverty." He explains the fairly general acceptance of means tests in Australia, despite criticism mainly from people excluded from the pension and its fringe benefits, by the absence of social stigma (evidenced by the anxiety of people excluded to qualify), the liberal exemptions and the incentives to add supplementary private provision.

In 1969 the pension means test was "tapered" by reducing the amount of pension withheld for each dollar of earnings (above 10 for a single person, 17 for a couple) from one dollar to half a dollar. The intention was to increase the incentive to supplement the pension by earning or saving, and in general, as put by the Prime Minister in the budget debate, "to encourage thrift and self-help."[8] The 100% "tax" on earnings over the disregarded amounts was thus reduced to 50%.

In Australia pensioners are treated more humanely and more generously than in many other Western countries despite the absence of national insurance and, I would argue, because of the use of means tests. It has not entangled itself in the questionable practice of raising revenue by describing it as an insurance "contribution." It has not had to confront the balancing act of raising enough revenue to pay the pensions but not too much to accumulate a fund, or, having generated a fund, of having to decide to invest it in unprofitable government securities or in politically-charged industrial shares. It has not loaded employers with wage-costs. It has not had to raise taxes for universal cash benefits. It has not had to provide for its pensioners by roseate promises of bounteous pensions in the distant future.

In 1968 the Governor-General of Australia announced a departure—or a development—in social policy:

> My Government will review the field of social policy welfare with the object of assisting those in most need while at the same time not discouraging thrift, self-help and self-reliance.

A Cabinet Committee on Welfare was created under the Minister for Health and included the Ministers of Social Services, Housing, Repatriation (for ex-service benefits) and a Minister representing the Treasury. Before it could present its long-term recommendations, the General Election of 1969 supervened. The Government's policy on welfare was a main issue. The Opposition offered comprehensive, universal and generally free welfare. In spite of support from the Australian press and vocal academics, it did not defeat the Government after 20 years of office.

8. *Hansard*, House of Representatives, 21 August, 1969, Col. 584.

The high rate of Australian economic improvement in living standards, about 6% a year, may help to make it easier to dispense with universal policies of government welfare because buoyant incomes facilitate independence. But the policy of concentrating government aid on the 5% poor in the population and encouraging the 95% to provide for themselves, and the general philosophy that good living standards come from self-help rather than from government, also stimulate the economic improvement.

CHAPTER XIV

What Now?

The National Superannuation and Social Insurance Bill is presented as proposing an important advance in British social policy, a measure of humanitarian compassion for the aged. Let us not be deceived. Its immediate primary aim is to raise money by a new device which, Mr. Crossman hopes, will be less intensely disliked, less strenuously opposed and less harmful than taxation openly proposed and faithfully described. Its more general purpose is to find one more means of redistributing income from the well-off to the worse-off (in which it would partly fail).[1] Its ultimate effect would be to transfer vast sums unnecessarily from private decision to government expenditure.

At the NALGO meeting on 25 November, 1969, when he addressed people whom he thought he could regard as fundamentally friendly, he spoke more freely. In addition to the by now familiar disarming disclaimers and disavowals of evil intent towards the NALGO and other public sector pension schemes (which he nevertheless had earlier in a letter conceded would have to be "reviewed"—a euphemism for cut down), he repeatedly said that there was no alternative to "national superannuation" since present pensioners could not be provided for out of increased taxation. He explained he was at his wits' end to know how to pay for improvements in the National Health Service, education and other expanding services.

> . . . Competition for finance for welfare is intense; the N.H.S., education and the rest are already fighting for funds.

He claimed that the pensioners could not be helped by higher taxation because "you really will be crushed by taxation." *So that is the real aim:* money for present pensioners from future pensioners.

1. In assuring contracted out employees that they would not be subsidising those left wholly in the State scheme, Mr. Crossman has been led to concede that the subsidy would be "at the expense of the pockets of workers left in the scheme."

Two subsidiary aims, or justifications, were thrown in: that taxation would put pensioners at the mercy of the Chancellor, and that the flat-rate pension had limited contributions to what the lowest-paid worker could afford and consequently had brought pensions below the Supplementary Benefit level.

Earnings-related "national superannuation" was, therefore, the best available policy. There was no way of making employers bear the cost: in France, Italy, Sweden, Czechoslovakia employers paid about 70% of the cost but these four countries had among the highest living costs. (Mr. Crossman did not add that employees' contributions could also be passed on—*inter alia* to their wives as shoppers.)

In any case no one thought that state pensions alone should *not* be related to earnings, when state sickness and unemployment benefit were related (but should *they* be?); and occupational pensions were also related to pay (but by choice).

Occupational schemes, of course, were not always good. Some paid only £3 a week or less, and did not provide for preservation or dynamism. As a dialectician of no mean skill Mr. Crossman will not expect the non sequitur to carry conviction. The £3 schemes would in time be paying £5, £7, £9 and £11 *if he did not prevent them.* And incomplete, imperfect private pensions for some are no excuse for compulsory, growing state pensions for almost all.

What emerges from all this talk about wits' ends, fighting for funds, and being crushed by taxation is hardly a grand design for accumulating income for retirement but a harassed Minister scouting round for money and settling on a lesser evil that would attract less notice, opposition or unpopularity, and sugaring the pill with a *potpourri* of seasoning sauces that have nothing to do with the objectionable ingredient. Earnings-related pensions are being sold by unrelated tit-bits.

O, what a fall was there, my countrymen!

The high principle of 1957 has degenerated into the convenient expedient of 1970. The ground has shifted: national suprannuation is being enacted not so much because it is good in itself as because other methods (of financing existing pensions) are worse.

Then what are the other methods? Mr. Crossman can think of only one: higher taxation, which he says, rightly but very belatedly, would be "crushing." But who has made taxation as high as it is? Not the people. If they were asked they would prefer lower to higher taxation. Here Mr. Crossman enters a contorted argument. He says the people want more welfare—better education, medical care, housing, pensions, and so on, but are not prepared to pay more in taxes for them. Are politicians incapable of seeing the difference between paying higher taxes for state welfare, in which they have little say, and keeping their money and paying for better education, better medical care, better housing, better pensions in which they have much say? The hope for improved welfare is that people will wish to spend more on it voluntarily because they come to regard it as personal, consumer or household expenditure out of income. They will never see taxes—or social insurance contributions—as payment for welfare.

It is not the people but the politicians—of all parties—who have made taxation "crushing." And this because they never or rarely think of giving tax money back to the people to spend themselves. The hilarious alibi is that government has to provide free services because people cannot pay for them. Which people? Most people could pay; only a small minority—5% or 10%—could not (and even they could be enabled to pay). The majority of 90% or 95% is rendered unable to pay by the very taxes taken from them to provide them with free services. Thus runs the hysterical logic of politics.

Mr. Crossman is doing no more than quoting politicians' failings of the past to justify one more failing in the future. He sees no other way out except higher government revenue because he sees no other way of financing existing pensions except by promising future pensions. At this rate we shall commit future generations to parting with larger proportions of their incomes to the State in the hope of ever-larger pensions. This is an incongruous procedure for a civilised society. It should not take more than moderate intelligence to enable politicians to see that as incomes rise people can cope for themselves, and will want to.

There will never be an escape from this impasse except by separating (*a*) the financing of present pensions from (*b*) the financing of future pensions. (*a*) Present pensions could easily be financed out of taxation if increases were limited to retired people without considerable other means and if taxation were returned so that in time people were increasingly allowed to buy welfare where they chose. Of the national income of £35,000 million, some £8,000–£9,000 million are taken in taxes (including rates and social insurance) to pay for welfare. *But most of it goes back to the people and the families and the households from whence it came.* To suppose that the present volume of taxation is sacrosanct and cannot be reduced is to suppose that everything the government now does is wise, or that the people willingly part with their money and prefer to have it spent for them by public officials. Mr. Crossman and his friends should have more respect for the common people.

(*b*) Future pensions would then be freed to be accumulated in any way that employees, employers, and self-employed preferred—through the State, or in industry, by personal pensions, or by any other method of saving. It would be desirable to remove obstacles in the way of occupational and personal pensions, and to make competition more vigorous between the organisations that devise, install and administer them. The Inland Revenue would have to be shorn of its power to delay or inhibit occupational pensions. And government would have to do better at resisting inflation, or enable industry to under-write, and individuals to insure, against it.

It is to these more fundamental reforms of British social policy, public finance and the institutional framework for private pensions that we must look for the ultimate escape from the intensifying vortex of pension finance that plagues Britain—and almost every Western country.

There would be no hesitation by the public. If the politicians doubt that, let them ask the people. Let them, if they dare, inform the electorate of *all* the possible alternative policies, and then conduct a referendum on (*a*) compulsory national superannuation, (*b*) voluntary national superannuation, (*c*) encouragement for occupational, private and personal superannuation. If they shrink from finding what "the people" want, let them at least not claim to know without asking.

Fundamental reform would take time? It might take 5, 10, 15 years to straighten out the tangled skein of taxes and social benefits in which the mass of the people pay for welfare through the State and have their authority over it taken away from them into the bargain. But Mr. Crossman is asking for 20 years to create a new method of financing pensions. Why should we not spend as long—or less time—strengthening the individual against the State rather than the State against the individual?

It is essential to prevent the imposition in Britain of this new inflated form of taxation because it would enable politicians to escape from the task of explaining and justifying the taxation they levy now. On the contrary, they must be required by public opinion to explain why they tax people in order to supply them with services they could provide themselves. And they would have to do so if they were denied resort to "national superannuation" to escape a duty they have shirked for too long.

The strongest case, superficially, for national superannuation is that it is the quickest way of giving retired people more help by the politically smarter way of raising funds without calling them taxes. This is not a masterly act of statecraft, except on the lowest plane in which deception can be admired for its technical agility, but a confession of failure by politicians who prefer to govern by half-truths rather than by unpalatable whole truths that cannot be denied for ever. But even if no other method of raising the required funds in the short term were available, the good would be far exceeded by the economic, social and political damage done to parliamentary democracy and the free society. To deal with the acknowledged claims to more generous treatment of two or three million people who will mostly have passed on by 1992, national superannuation would fasten on all earners and future pensioners a new compulsory system of saving through the State that might last 50 years or more. In this act of political abdication there is no statesmanship.

The full majesty of British parliamentary institutions has been exploited to conceal a political charade. It would do nothing for the existing pensioner, the widow, the married woman, the disabled person, that could not be done better in other ways. It would unnecessarily restrict the freedom of nine-tenths of the people to save for retirement. It would confuse the contract of employment between employer and employee in the labour market by impeding the natural spread of pensions from salaried to wage-paid employees. It would load industry with costs that would have to be passed on to the consumer and the housewife. It would burden the middle-paid employees who would be left to subsidise the lower-paid, and generate friction between them. It would unnecessarily embroil government in insurance, saving and investment. It would further damage the respect for British politicians and political institutions: *Perfidious Albion* does not refer to exporters, merchants, bankers, shippers or private insurers. It would distract government from tasks that only government can perform. It would further aggrandize the State.

None of this can be welcomed by politicians in any party who care for people as individuals, for the resilience of the economy, for personal liberty or for political integrity.

For Britain in the last third of the twentieth century national superannuation would be national retrogression. To copy other countries confronting confusion, embarrassment and uncontrollable inflation in "earnings-relation" is to confound common sense. This is not the way forward for a humane, liberal, increasingly opulent society in which opportunity for the rising masses, which social policy could enlarge, would tragically be constricted. Let democrats—Conservative, Liberal, Socialist and unaffiliated—recall John Stuart Mill:

> Among the works of man which human life is rightly employed in perfecting and beautifying, the first in importance surely is man himself.

Envoi

The main lesson of this book is that the longer the radical solution of British pension policy—paying adequate incomes to pensioners in need out of taxation and building future pensions by funding—is delayed, the more difficult it will be to solve and the more damage will be done to British society, economy and polity.

Mr. Crossman has inherited a heavy enough task, and can partly blame other post-war politicians for its magnitude. It could have been foreseen by his predecessors as Ministers of Pensions and their colleagues in both parties. All have shrunk (as have many Ministers and governments overseas) from finding ways of supporting current pensioners in need out of current taxation without embroiling current saving for future retirement.

To acts of omission have been added acts of commission. The proposed 1972 earnings-related pension, like the 1961 graduated pension, is another political effort to escape responsibilities rather than honour them.

If Mr. Crossman cannot be blamed for its magnitude, the task may not be unwelcome to him as the pretext for expanding state pensions that he has long favoured on general philosophic grounds.

The duty remains for democratic politicians of all parties. The Crossman scheme is one more effort to pass the buck to the future. It is incongruous for an opulent society to have its retirement income generated increasingly through the State; undignified for self-respecting men and women to be dependent on unknown politicians and taxpayers of 1982, 1992 and 2002. Although it is too late to suppress private saving through occupational pension schemes, an extension of state pensions would repress their spread down the income scale to the mass of wage-earners who, into the bargain, would be forcibly relieved of earnings they could have saved with choice.

Sooner or later the inherited problem of untangling the finance of past pensions from that of future pensions must be faced. How far it requires a reconstruction of state pensions and welfare, a reform of taxation and public finance, a revised institutional framework for private saving by pensions and other methods are for statesmanship in the 1970s to decide. A necessary precondition is for the Crossman Bill to be rejected, or, if enacted, repealed.

APPENDIX A

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It is time the pensions industry's candid friends spoke out about its questionable judgment in public policy and its failure in commercial enterprise. My argument is that the pensions industry—as a whole: consultants, brokers, and underwriters, but chiefly the life offices—have paid too much attention to government and too little to its customers: past, present and future.

It is proper for commercial enterprise and technical experts to be consulted by government, but not to the point at which they lose the power of independent appraisal and criticism. In their relationship with the government over the Crossman White Paper, the insurance companies have weakened their capacity to speak for their customers so much that there has been almost no criticism of the proposals. Does the LOA speak for all the life offices? I know it does not. But those who are disconcerted and dismayed have failed to speak up. I praise them for seeing that the LOA is going wrong, but condemn them for remaining silent.

The notion of "partnership" between the government and the life offices is politically questionable. In a democracy it is a dereliction of government to share its authority with industry; and it is arrogant of industry to indulge pretensions of sharing power with government. Moreover, in its economic aspect, the notion of partnership is a dangerous half-truth. It has some sense if it means that government, out of taxation, provides pensions for people who cannot be covered by private insurance, and the pensions industry covers the rest. But it is idle to be blind to the consequence of a *growing* state sector—that the relationship then becomes *competitive.* If the government provides pensions for a wide range of incomes, and over this range the average pension is 50 per cent of income; and if 9 out of 10 people are caught in the net, the state becomes a powerful competitor for employers' and employees' moneys. It is foolish for the life offices to welcome increasing state pensions that they can provide themselves.

This is the tragic *opposite* of what should take place as incomes rise towards the end of the century. Government should become a gradually shrinking junior "partner." Instead, the life offices are acquiescing in a growth in state pensions. They have lacked faith in themselves; they have misjudged the changing aspirations of the common people; they have lacked vision in seeing the consequences of spreading opulence.

In their anxiety to partner the state, the life offices have failed to point to the fallacies in the notion of graduating pensions with warnings under a state scheme: that it is not insurance but disguised taxation; that people who earn more can save more; that if they will not save more, they do not have to be compelled to do so through the state; that if people had a choice they would prefer private to state pensions.

Why is the LOA silent? Is it serving its member life offices? Itself? The state? The ultimate customer? For whom *does* it speak?

The life offices do not seem to understand that what politicians are ultimately concerned with is not pensions but power. LOA spokesmen, whatever they may believe, are not engaged in long-term actuarial calculations but are embroiled in short-term political calculation. Mr. Crossman would not be inviting the advice of the life offices except to help him devise a scheme that would win votes for the government.

The life offices have been just as naïve in dealing with Mr. Crossman as they were in dealing with Mr. Boyd-Carpenter. In 1959–60 Mr. Crossman called Mr. Boyd-Carpenter's scheme a swindle; a few Thursdays ago Mr. Boyd-Carpenter called Mr. Crossman's scheme an even bigger swindle. That is the maelstrom of party politics the life offices have got caught up in. That is the reality, not the subtle niceties of the innocent actuary. So much for keeping pensions out of politics, the hope of the actuaries back in 1959 expressed in their statement *Appeal to Statesmanship.*

Of course, the life offices hope for something—perhaps to salvage what they can of the occupational pension schemes. The only card they hold is their contribution to savings. But do you suppose that Mr. Crossman will put that before the prospect of appearing as a saviour of the government? With a plan that offers security to the electorate, young and old, rich and poor, male and female, in good health and bad?

Life office actuaries are contending with a political tactician, a master of propaganda against the Germans—one of his wartime jobs. Do you think those gentle gentlemen from the City are any match for a politician with much more at stake than their special concerns? Mr. Crossman has outmanoeuvred the life offices to such an extent that he now quotes them as his authority for the technical soundness of his scheme. And the director of public relations of the LOA writes a newspaper article which comes perilously near to defending the government. It is a short, slippery slope from consultation to unintentional, unconscious, collusion.

And all this without knowing the terms on which the government will graciously allow the life offices to continue occupational pensions. The LOA is now quoted by the government for the view that contracting-out in its attenuated form of abatement is "technically feasible." That is meaningless mumbo-jumbo. It is "technically feasible" to grow bananas in Scotland. It is "technically feasible" for the population of Britain to crowd into the Isle of Wight. What matters in the world of decision making is not technical feasibility but economic price. The LOA have approved the government scheme in principle, *in vacuo,* without knowing its price.

If contracting-out is made too easy—to save the occupational schemes' private saving—the state scheme will have to be bolstered by high contributions from people not contracted-out or by taxation. That will not make the government popular. And if in consequence contracting-out is made costly or complex, the LOA will have prejudiced the whole future of the occupational schemes, the pensions business of the insurance companies, the pension brokers, and the consulting actuaries.

The LOA has put the interests of its policy-holders, past and future, at risk. The life offices were naïve and defeatist to associate themselves with this scheme before knowing its terms. They should not defend it, even in principle. They should withdraw from it without further temporising or equivocation. Instead, they should put their trust in the customer and in their skills in meeting his requirements.

Mr. Crossman says the life offices do not or cannot (*a*) preserve pensions on a change of job, (*b*) raise pensions with prices or incomes after retirement, (*c*) give widows pensions, (*d*) give dependent wives pensions.

Do the life offices really believe this? There is nothing here that the private market cannot provide, if not in precisely the same form, comparable in effect. If the LOA and the National Association of Pension Funds spent as much time and ingenuity on these problems as they have done in helping Mr. Crossman with his, they would have solved them long ago. What has stopped them is lack of commercial spirit and lack of competitive drive.

Nor need private pensions be supplied to every firm or individual in order to resist the political charge that the life offices have failed and that the state must take over. If small firms, or firms with high labour turnovers, cannot be served by federal schemes, they can pay their employees enough to buy personal pensions. And there are many ways to supplement a pension.

And so I say to the pensions industry, put not your trust in politicians: no-one knows who will be in power in 1972. Study your customer: he prefers *you* to the state; he will see through the false prospectus of national superannuation.

APPENDIX B

A Note on Sour/Sentimental Sociology

One of the civilised scientific sociologists, Professor D. G. MacRae, has made a persuasive case for "sociology" in a defensive article "Is Sociology Necessary?" in *New Society,* 18 December, 1969, the home of both civilised/scientific and sour/sentimental sociology. He refers to "a feeling that sociology is something dissolutive of society and yet not so firmly based, positive and powerfully generalising as to be a real science," and affirms that "the majority of people paid to be sociologists in British society are . . . malcontented and liverish critics."

Daniel P. Moynihan, formerly Professor of Education and Urban Politics at Harvard, Assistant Secretary of Labor for Policy Planning and Research under Presidents Kennedy and Johnson, and now Assistant to President Nixon for Urban Affairs, said in a recent book on America's welfare programmes: ". . . social scientists tend to be politically liberal [in the American sense of collectivist] or left, especially when they are young. Economists would seem to be rather an exception: as the discipline gets "softer," the radicalism grows more pronounced." He adds: "Social scientists love poor people. They also get along fine with rich people. (Not a few are wealthy themselves, or married to heiresses . . .). But, alas, they do not have much time for the people in between."[1] Irving Kristol has also referred to the sociologists' "initial animus against the status quo."[2]

Much the same is true of many British sociologists and people interested in social affairs and welfare policy in education, medical care and housing. Some, on the right as well as on the left, often with public school education, suffer from a sense of guilt they try to exorcise by advocating a society in which uniformity will suppress the inherited differentials from which they are trying to escape, and which they would deny to merit as well as to inherited wealth.

1. *Maximum Feasible Misunderstanding,* The Free Press, New York, Collier-Macmillan, London, 1969.

2. *The Public Interest,* Spring, 1968.

APPENDIX C

"The existing State pension is the same for everyone. But, it is said, pensions should vary with earnings.

"Is this good enough reason for the new scheme?

"Does a £12-a-week man need more coal or calories to sustain him in old age than a £11-a-week man?

"If he thinks he does, he is able to save more voluntarily.

"And, if he does not, should a state scheme force him?

"The scheme is said to be essential to raise more revenue with which to pay the existing basic pension. . . .

"Of the six reasons given for it at various times by the Government, the political parties, the insurance companies, or other interested organisations . . . this, I think, is the real reason."

From "The Social, Economic and Political Implications of the State Graduated Pension Scheme." One-day Conference on Government Pension Scheme 1961. British Institute of Management, 24 May, 1960.

THE RETREAT OF THE STATE IN SOCIAL WELFARE

The Retreat of the State in Social Welfare

The Nature of the State

We live in a decisive stage in the history of the functions of government, in the liberties of the people, and in the nature of our democracy. All three are involved in the belated but growing acceptance in all schools of thought that the state must retreat from the over-expansion of government. Accelerating scientific and technological advances are more far-reaching in their economic and political repercussions than any since the Industrial Revolution of two centuries ago. They require us to question the powers of government and the political process that elects it. Not least must we consider that the state *should* do, but more what it now *can* do (and therefore what it *cannot* do) because of fundamental changes in everyday life. Here is the missing link in the efforts and failure of recent governments to adjust their welfare policies to changing conditions in society, conditions which are enhancing the power of the people to choose the lives they would like to, and now increasingly can, live.

The state is reluctant to accept both the weakening of its powers and the realization of its defects. In spite of its claims to do for the people better than they can do for themselves, the state is not all-seeing, impartial between supplicants for its favours, and efficient in the use of its revenue or borrowings. Furthermore it is not always just: it is tempted to yield to the strongest importunists, and not to the most deserving causes. It yields to people organized as producers much more than to the same people unorganized as consumers. It distorts their preferences by encouraging them to put their immediate short-term interests before their underlying long-term futures. In 1986, while on a visit to the site of the Battle of Gettysburg, in company with one American and one British economist working on the nature of democracy, we stood near the spot where in 1863 Abraham Lincoln promised government of, by, and for the people. Sadly the democratic state has emerged very differently from what Lincoln promised. In real life it has produced government "of" the politically active, "by" the political managers, "for" the political importunists. In plain English, this is government of the busy, by the bossy, for the bully.

These excesses of the democratic state have provoked even more fundamental reactions from the people. It is the people who can now, and will increasingly in the coming years, limit the state's powers. The most recent developments in the distribution of power between government and governed are even more fundamental than Lincoln could have foreseen. In our times, today and tomorrow, and even more in the days and months and years after tomorrow, the state will gradually lose its powers. It has no magic wand. It cannot do what its wisest counsellors advise by passing laws, announcing rules, and proclaiming regulations. It has new and advancing competitors for its services, and they have been expanding and advancing to the point at which they are increasingly preferred. The waning power of the state, too long misunderstood by historians, is now more manifest, and especially in the realm of social welfare. The state has retuned its engines of expansion into state education, state medicine, state housing (through local government), state pensions, and state "social" insurance since the Second World War and earlier. Indeed it has been better at tuning engines for advance than for the more relevant and more urgently needed tuning of engines for retreat.

The state is now in no man's land. It has advanced too far and cannot easily retreat in good order because it simultaneously risks unpopularity from the customary beneficiaries of its "free" services, and growing reluctance to supply the resources for the people who want, and can find, better services elsewhere. In recent years democratic government has been intensively analysed by new schools of social scientists who reveal the decisions of the people's "representatives" in government to be very different from those of the people themselves. This was true in the creation and post-war expansion of the welfare state, and now still more true in the failure to adapt the welfare state to a changing world. After a century or more of advance the state is facing unexpected obstacles to retreat. It is having to accept that its government is not sovereign or as final as it thought. Its overexpanding laws, rules and regulations can increasingly be escaped by the people.

Government has been slow to learn that the changing nature of economic life has increasingly put the preferences of the people beyond its own power to suppress those same preferences. And its statistics are misleading because more economic life lies beyond its reach; statistics of national production and incomes are inaccurate. They understate the total production of goods and services and overstate the degrees of poverty, inequality, and unemployment. All these historic trends underlie the unavoidably accelerating retreat of the state from social welfare that will continue to accelerate in the twenty-first century.

The explanations of the imperative task to adjust the domain of government to the increasing power of the people are economic, political, and technological. Above all they are economic, because the science of economics provides the unique indicator—costs and prices—of the most dispensable alternatives in deciding the best use of scarce resources. The welfare state has suffered from the crucial weakness that it has deprived itself of this instrument. Its claim to provide welfare "free" was never well founded. Yet this truth was rarely questioned because, from the earliest days in the late nineteenth century, most people have paid for "free" social welfare indirectly through taxes on purchases or earnings. Oscar Wilde's taunt in *Lady Windermere's Fan* that people who know the price of everything know the value of nothing was the opposite of the truth. It is still exploited by influential people who claim the common people's money to pay for their favoured causes—in the arts, heritage, environment and elsewhere. Their claim that the money they exact from government will do untold good is shallow. The so-called cultural "values" of the cognoscenti are the preferences or prejudices of the few hundreds with influence in government; the people's money is questionably commandeered and misused by government. Lloyd George was condemned for "raiding the Road Fund" for other purposes urgently required by government; the Lottery Fund is now being "raided" for purposes not preferred by the people who risk their weekly pounds.

Only the "empowerment" of the people by returning their purchasing power and through the freeing of prices will reveal the true preferences on which they would wish to spend their money. History suggests that they would be spending more on education, medical care, housing, and insurance and saving for the years after work than the state can now raise in taxes to spend *for them.* The concealing of these costs underlies the confused thinking in the retreat from social welfare. In its latest efforts to withdraw from some forms of social welfare the state confronts a new dilemma which stands midway between overexpansion and inability to retreat.[1]

Democracy has expanded all its four main functions: in social welfare, in the supply of the "public" goods of law and order once thought the necessary function of government, in the public "utilities" of fuel and transport, and

1. A. Seldon, *The Dilemma of Democracy: the Political Economics of Over-Government,* Hobart Paper 136, London, Institute of Economic Affairs, 1998.

in local government services (from providing literature for the working man to improve himself, to the tennis courts, swimming pools and golf courses—subsidized but not widely used by people too old to swim, too slow for tennis or too frail for golf). In all four functions, government has expanded too far into overgovernment. Its resources fall short of its capacity to supply the people with social services—in education, medical care, and housing; these same people increasingly obtain them from elsewhere at lower cost and higher quality. If government does not withdraw, that is, retreat unilaterally, it will lose both its authority to influence the pace of withdrawal and, even more fundamentally, weaken its repute within Lincolnian democracy as answerable to the people.

The Social Welfare Services Ripe for Withdrawal

The main elements of state welfare and its defective financing fall into three groups:

- *education and medical care* universally supplied and largely "free" of direct payment at the time of service, but paid for indirectly by taxes;
- *housing* for five million families subsidized by low rents, and *minimum incomes* for all in sickness, unemployment or old age, and subsidized by disguised National Insurance costs;
- *discretionary "charitable" assistance* supplied by general tax-paid subsidies.

The conventional historians of the social services assess the strengths and weakness of past government policies but draw unfounded conclusions which argue for further state activity to remove blunders or to extend measures that earlier proved ineffective. To such academics the costs of the social services to the nation are seen only as the financial outlays required for improvements. That approach is not sufficient to decide the best possible services for the people. The economist uses the "counterfactual" approach which considers what other methods of organizing social welfare might historically have replaced the failed constructions of the state. These are the alternative forms of welfare that might have been organized in other ways than by government (central or local) but which have been lost for decades. This more revealing approach issued from the teaching of "opportunity costs" by the Austrian School of Economics, led by Frederick Hayek who brought it to the London School of Economics in the 1930s. This school taught that the real "costs" of the state, not least in welfare, were the alternatives that might have developed had they not been discouraged or suppressed by the state. This vital missing link in its social welfare policies has long been neglected by the British state. What the state should have discovered after the Second World War, or before it, were the alternatives lost for far too long, the opportunities forgone by the persistence of the state in suppressing services that had long before emerged spontaneously in the early, mid- or late nineteenth century. These lost alternatives emerged from the natural growing instinct of people in families to take care of their own, throughout all the vicissitudes of life.

But instead the British family has been weakened because the state has usurped the authority of parents. Few children, especially in the lower-income families, have looked to their parents to provide their schooling, their medical care, or even their homes. They have had to look to the political authorities, the politicians and their "public" servants, who have widened their powers to invade family bonds. The "opportunity cost" approach reveals the long-ignored loss of another virtue of the people. In the perspective of history it is now clear that the state discouraged or suppressed spontaneous assistance to friends, neighbours and strangers by the personal charity that would have developed through the churches or through local groups of citizens; this is the selfless humanity that has long grown on a much larger scale in that other England that developed in the United States of America. It is not surprising that economists rather than sociologists, impressed by the powers of the state, have argued that the church encourages good relationships with non-churchgoers as well as churchgoers; in this they have followed their founder, Adam Smith. An economist in the USA has recently discovered[2] that, where state subsidies ceased, church membership and the demand for preachers rose markedly. Churches prospered when church leaders had to appeal to individual worshippers for encouragement and support rather than to legislators in government. Individual people as members of cohesive families were more sensitive to the condition of the less fortunate than they were as taxpayers.

As the state inevitably retreats in the twenty-first century we may expect the natural instinct of humanity, the urge to help the unfortunate, to expand with rising incomes. The efforts of the churches in founding schools for the young, supporting hospitals for all ages, building almshouses for the old,

2. Professor Kelly Olds, "Privatising the Church," *Journal of Political Economy* 102 (1994) 277–97.

and giving money and comfort to the poor will grow far beyond the capacity of the state to supply these things from taxes unwillingly paid. Small wonder that parents in all social classes have usually preferred their children to attend church schools, rather than secular schools subject to political control by local authorities; Mr. and Mrs. Blair typify many other British parents. The difference is that working-class parents anxious about lagging children do not have the cultural influence of middle-class people to make their case with head teachers, hospital officials, housing managers, or National Insurance officials for better or early consideration. They also lack the power to escape from lagging secular schools by using the voucher method, a system which the government has abandoned in Britain for nursery schools, but which is showing how it can widen choice for working-class families in several states of the USA, where it is welcomed by lower-income black parents.

The Rejection of State Welfare

The main reasons why individuals and families are now rejecting state welfare and withdrawing increasingly from state services are four-fold: first, rising incomes; second, technological advances; third, the reluctance to pay for state services through charges, insurance or taxes; and fourth, the widening number of escapes offered through informal employment, barter, electronic money, or by purchase from competing private suppliers at home and overseas.

Rising Incomes

Rising incomes are enabling more families across the income scale to pay for schooling by fees, for medical care by insurance, for housing by purchase, and for pensions and loss of income in sickness and unemployment again by insurance and saving in various forms.

Technological Advances

Personal and family withdrawal from state services is expedited by the technological advances that enable industry to produce "bespoke" goods and services tailored for individual and family requirements in place of standardized state service "off the peg." It must have been apparent to the well-intentioned supporters of "social" welfare (especially after the Second

World War) that the standardized state services would before long be rejected. They mostly provide "straightjacket" schooling and medicine, standardized homes and uniform pensions. Yet millions of people of all ages and incomes increasingly cook (or buy) individually created meals, wear individually tailored clothes, live in homes built in varying shapes and sizes, filled with the latest labour-saving devices (and leisure amenities for discriminating homeowners) and accumulate pensions for people retiring not at the state's artificial ages of 60 or 65 but at varying ages from 55 to 75—or even 85.

Reluctance to Pay for State Services

The retreat by the people, if not by the state, from social welfare is increasingly stimulated by the reluctance of the beneficiaries to pay for it in the only ways they can—by charges, insurance or taxes. The increasing resistance to higher taxes takes the form of both legal avoidance and illegal evasion. They are legally separate but functionally linked and morally difficult to distinguish between. They are linked because increasing experience of tax avoidance teaches new methods of tax evasion. They are legally separate but recent Chancellors of the Exchequer in 1997 and 1998 have revealed a reluctance or inability to separate the two. Their plight in financing government is indicated by the self-contradictory anxiety of successive Chancellors to penalize as illegal the tax avoidance that the law specifically allows as legal for the intention of earners of all kinds of income—wages, salaries, fees, commissions, "tips," and profits to minimize their loss of earnings by taxes by varying their working lives. This is evidence of the desperation and increasing hostility of an impecunious British government to its historically law-abiding citizens. Its excessive requirement for revenue to finance services that taxpayers are evidently reluctant to use and pay for is weakening the bonds of mutual trust that should underlie a democratic government which spends over 40 per cent of national income on such services.

The latest evidence of government desperation is the "psychological warfare" waged against the generality of the profession of accountants on whom the Inland Revenue depends to present taxpayers' accounts. There is here a new moral dilemma for government that will drive it to retreat further from social welfare and to leave taxpayers to pay for private services they prefer by methods they prefer. If the state is indeed driven to penalize taxpayers for acts that are legal it will further risk resistance to other laws, rules and regulations over the whole range of economic life. It is a long time since the peasants of Kent (where I live) rose in 1381 to rebel against their taxes. But now I hear the rumblings of rebellion in the most bourgeois of churchgoing Kentish homes. The question must now be faced: we need to decide where the essential blame lies—with the taxers who demand more in revenue than the people are readily prepared to pay—or with the taxpayers for rejecting taxes seen as impertinently invasive of family and working lives.

There is now increasing research by economists into the extent and likely reasons for the intertwined combination of avoidance and evasion that I have christened "tax avoision." It is no longer sufficient to continue with labels that beg the question of the relative moral responsibility of the citizen and the state implied by the old term "black market" or by the "underground" that echoes the wartime resistance of the French to oppression and tyranny. I use the morally neutral term "parallel economy" as the truest description of the loss of sympathy between government and people. And the avoidance of moral condemnation offers the best hope of returning harmony by arranging taxes that people will willingly pay for goods and services they cannot buy in open markets. The best researches of the extent and reasons for tax rejection have lately revealed that it is essentially the excesses of government that have depressed tax revenues.[3]

It is no longer true, as it may once have been in the days of the smugglers and lately of the drug peddlers (and is still stubbornly asserted by government spokesmen and civil servants), that the sole or main way to maintain tax revenue is to raise tax rates. The most refined researches, by Professor Friedrich Schneider of the Johannes Keppler University in Austria, reveal that tax revenues are depressed essentially by four causes: increases in direct taxes on incomes, indirect taxes on purchases, the complexities of the taxation structure as a whole, and the severity of the regulation of industry and economic life in general. What is true in Austria is probably true, partly or largely, of Britain. In its search for finance to pay for the social welfare system, remaining after a too reluctant retreat by the state, the British government now would be wise to conduct similar researches.

Methods of Avoidance

The fourth reason for government to retreat from social welfare comprises the increasing and developing escapes to new sources of goods and services from national and overseas suppliers brought to every private home

3. Professor Friedrich Schneider, "The Shadow Economies of Western Europe," *Economic Affairs*, 17, 3 (September 1997) 42–8.

by the Internet. There is much to be said about all the rapidly accelerating developments that ease "escapes" from government; I settle on barter as the most natural but most neglected escape. Barter can enable otherwise law-abiding citizens to exchange personal services produced by specialized skills. As such it is designed essentially to benefit friends, neighbours, members of clubs and other associations in widening circles by producing nonmonetary "incomes" nominally otherwise taxable. There are no official statistics or estimates of this return to natural exchange, but the informal evidence indicates substantial development in recent years. This is undoubtedly likely to form a rapidly increasing feature of British private and communal life. The quiet grassroots revolution in the form of local exchange and trading systems (LETS) has been recorded by the press over a period of several years. Most lately it has been documented by consistent research in England.[4] Such exchanges can be seen as a new form of spontaneous private welfare rescuing people with low incomes, or no incomes at all, from avoidable poverty. The latest development sees it lubricating barter exchange by forms of local "money." Simple barter is difficult to arrange because it requires a double coincidence of wants: individuals must want precisely what other individuals offer. This pure exchange of barter is eased by a new kind of "money" that satisfies its essential economic function as anything that is generally acceptable in exchange.

There was a time when barter meant the direct exchange of goods for other goods by specialists in complementary skills—for example, primitive farmers exchanging with hunters. In the 1990s or earlier, informal local currencies have been easing exchange between people of modest means through a modern form of what Samuel Smiles would have called "Self-Help" in local exchange and trading systems. In West Norfolk, the new money is called "shells." In Greenwich the name is "anchors," in Brixton "bricks," and in Manchester and no doubt other former textile areas of the North West "bobbins."

In parts of Yorkshire a new currency is being used, in effect "exchanged," for personal services—house maintenance, gardening, and childminding—and for everyday goods—food and (second-hand) clothing. Its use is being further extended to training or tuition in manual or artistic skills as in painting and cooking.

These are early forms of a new growth of informal exchanges in free markets that will liberate unused skills and create new forms of income. They il-

4. G. Seyfang and C. C. Williams, "Give DIY Economics a Break: Local Exchange and Trading Systems Are a Great Benefit to the Unemployed," *New Statesman*, 27 March 1998, 24.

lustrate the old truth, long forgotten, that the people have been misled to expect government to provide services they could better provide for themselves. In King's Lynn and West Norfolk the LETS have developed mutual aid by advice and assistance in everyday activities that encourage local communal life. The far-reaching potential of this spontaneous development is being harnessed by local authorities. The European Commission has incorporated the promotion of LETS into urban and regional development. The obstacle so far seems to be government in Whitehall. The uncertainty whether LETS earnings will count against social security benefits has discouraged participation by unemployed people. The Federal Government of Australia encourages such forms of exchange precisely as a new way to find work training and experience. The possibility of exonerating LETS from Whitehall rules might liberate many more people into dispensing with the state welfare for which they cannot or will not pay.

The Culpability of Overgovernment

The pioneering spirit of the English, which created the merchant venturers, the East India Company, and the entrepreneurial risk-taking spirit that prompted innovation in British industry, have not been conspicuous in the structures of the post-war government. These structures created the latest expansion in social services but there is now a reluctance to retreat in the face of economic change. The lack of a clear understanding of the imperatives of retreat is now revealed in the four divergent approaches to the belated reforms.

The Secretary of State for Education is at least willing to invite advice from people with experience of running the private schools that have transcended the defects of the state system and its schools: generally lower standards of performance, unruly behaviour including assault of teachers, and truancy. The difficulty remains of building advice services from private organizations. Moderate investors must be persuaded to risk their savings with schools sanctioned by central government and run by local officials with little knowledge of and less sympathy with the commercial skills required for the high efficiency demanded in competitive private schooling.

The Secretary of State for Health sees no flaws in a state system that has chronically failed to raise as much funding as healthcare systems in all other western countries in Europe, and even more in North America, where combinations of tax financing with optional private insurance raise far more—35 percent more in Europe, 50 per cent in Australasia, 60 per cent in the

USA—than in the British National Health Service (NHS). He is prepared to continue a fifty-year-old system unchanged on the same principles—no knowledge of costs—for a further fifty years. A century of the NHS which learns nothing from other countries would look sadly out of place in the likely world of the twenty-first century.

The government has no fundamental solution for improving the conditions in which five million elderly couples live out their years in *council housing* or high-rise blocks. These long-outdated structures cannot be adapted to the much higher standards of private owners or tenants, not least among their own children. Government expedients include short-term increases in yet more subsidies to patch up council homes which will be of little interest to younger people as their new homes in 2010 or 2020; alongside this stands the latest drastic and desperate expedient of demolishing large numbers of council homes in the slums.

The fourth service, the unfunded "pay-as-you-go" *National Insurance pension,* has finally been acknowledged as a failure that will not produce the higher incomes in retirement that most people have come to expect. The new proposal for a compulsorily funded private pension paid by insurance and invested to yield the income to pay the pensions is a confession of failure of statesmanship. It comes too late to save enough for the incomes that will be required in old age by those already over the age of fifty-five.

All these state services are destined to be perpetually short of the tax funds necessary to raise their standards. The only long-term solution is to recognize that they were created when tax revenue seemed secure. The ultimate solution in the twenty-first century is for the state to accept the necessity to retreat in good order by returning taxes to the parents, patients, tenants and pensioners to enable them to buy schools, hospitals, homes and pensions of their own choice on the open market. The sooner this ultimate retreat is arranged the more the state can help it to be orderly. If not, democracy will be seen to have no policies for an advancing society. Much of current revenue is required to repair existing social welfare buildings—schools, hospitals, housing, and offices. The essential flaw of contemporary democratic government is that it requires frequent but increasingly reluctant voter approval to maintain the good order of structures inherited from the past. Much the same is true of schools and hospitals, social "homes" for the unruly young and the uncomfortable old, and the clerical offices that disfigure our towns, not least when they are newly built for the thousands of public officials who may not require them for much longer.

Most of these structures were built by government in the twentieth century; they now plague the government of today. It need not have been the fate of our children, the sick, working-class families, or the ageing if government had retreated from social welfare in the last hundred years as people built preferred services by paying fees, charges or prices. That is what they had been doing since the early nineteenth century until well into the twentieth. Little of that is taught in our school history books or discussed currently by sociologists. In 1860, the Newcastle Commission reported that three out of four working-class children were at schools charging fees paid for by their parents, sometimes aided by charities or the church.[5] After the establishment by Gladstone of local board schools in 1870, direct spending by families was increasingly replaced by indirect spending by the same people in their taxes on their purchases, but with much less influence on their schools.

Towards the last third of the nineteenth century, working men were insuring privately for medical care with friendly societies and similar working-class organizations.[6] In 1911 when the Liberals, Lloyd George and Winston Churchill, introduced compulsory social insurance for 11.5 million male employees, no fewer than 9 million had been covered for some time by private insurance. Long before, in the 1870s and 1880s, working people in the industrial north were buying their homes with the help of the early building societies. And, in 1946 to 1948, when post-war Labour, sadly encumbered by pre-war thinking, introduced the enlarged pensions schemes, Attlee and his colleagues must have known that the occupational pensions begun in the 1930s were spreading and would have spread further. This was a failure of democratic government, not least in its short-term myopia induced by the anxiety to win voter gratitude by dealing with urgent, pressing, short-term "problems" that build complex distortion of policies in the longer run. The social services demonstrate more than other policies the unsuitability of politics in education, medical care, housing, and much else that can damage family and private lives. With the best of intentions, but the worst of democratic foresight, governments down the decades have expanded social welfare too soon, too far, and too long, and their retreat is now too slow.

Admirers of Beveridge have persevered with the social schemes he out-

5. Professor E. G. West, *Education and the State: A Study in Political Economy,* London, Institute of Economic Affairs, 1965.

6. Dr. David Green, "Medical Care Without the State," in Arthur Seldon, ed., *Reprivatising Welfare: After the Lost Century,* IEA Readings 45, London, Institute of Economic Affairs, 1996, 21–37.

lined in 1942, some of which he had himself abandoned in his last years of disillusion with politicians. Meeting with him as early as 1947, as a fellow member of the Liberal Party, to discuss aspects of state pensions on which the Liberal Party had asked me to chair an enquiry, I found he was busy writing a book, *Voluntary Action.*[7] In this he warned uninformed enthusiasts that the "social welfare" being prepared by the politicians would endanger the very institutions that had been built by "the people," that is, by the lower-income working classes. In 1962, when two former Fabian economists, the renowned Colin Clark and the sage Graham Hutton, joined me and my Institute of Economic Affairs colleague, Ralph (later Lord) Harris, to dine with Beveridge at the Reform Club, he lamented the fate of his national pension scheme. His saddest regret seemed to be the failure of perhaps the most upright academic-politician of the day, Hugh Gaitskell, to follow his advice and build the National Insurance Fund over twenty years, before paying the new retirement pensions. The political excuse was that the higher benefit could not be paid to other beneficiaries without including pensioners—another excuse for a short-term expedient that created long-term tensions *après le déluge.* The National Insurance Fund was for only a few years a "Fund" invested to yield income for the pensioners. For most of the years since then it has been not a fund, but rather a tank with a pipe of National Insurance contributions *leading in* and a large pipe of pensions *leading out.* That is still true in 1998, with the added burden for people approaching pensionable age that they must—by government decree—personally accumulate a second pension. One other academically-responsible politician, Sir Keith Joseph, saw the coming dilemma in the 1970s, but his political friends did not share or support his anxious vision.

The Historic Delusion

Talk of "the retreat of the state" creates apprehension among the many who have regarded it as the saviour of the sick and the poor. A dominant anxiety is that democracy has taught the doctrine of Thomas Hobbes that its creation of "sovereignty" (government power over economic life) is essential for the maintenance of good order and civilized life. The alternative to the political state with the power to regulate economic life and to coerce the people to conform to it, warned Hobbes, was "a state of nature" that would

7. Sir William Beveridge, *Voluntary Action: A Report on Methods of Social Advance,* London, Allen and Unwin, 1948.

create perpetual "war of all against all" in which life would be "nasty, brutish and short." This dire prospect has habituated the Western world into accepting and tolerating the political state with its overgovernment. Yet from the start of the twentieth century or earlier overgovernment has been an obstruction to the liberties that democracy was supposed to protect.

Hobbes wrote in the seventeenth century. His warning has long been overtaken by the technological advances of the nineteenth century with its massive rises in living standards. A century after Hobbes, at the end of the eighteenth century, it was still plausible for Tom Paine to urge, in his classic *The Rights of Man,* an early structure of Beveridge Plan benefits from maternity grants through a form of cash school vouchers all the way to funeral expenses. In the introduction to the 1958 edition of *The Rights of Man* I wrote of Paine's proposals:

> In his day this was advanced thinking. In our day we have no sooner erected a structure of state provision for the needy than it has in some respects become out of date with rising personal incomes. The welfare state is, or in a free society should be, a passing phase; but there is a danger that it will be erected into a permanent appendage: the crutch will be beaten into a shackle.[8]

So it has been for forty years since 1958, and indeed for over a century and a half. The recent reforms in state welfare call out of us a reassessment of Hobbes' flawed warning. This was rejected by the inter-war Labour-inclined scholar, A. D. Lindsay, the Master of Balliol, in his introduction to Hobbes' *Leviathan:* he argued that law is not obeyed solely because it is created by the state; rather it is respected essentially because it is wanted by the people. This truth is still overlooked by the politicians of our day.

> . . . if Hobbes is right [said Lindsay] in maintaining that without some authority there can be no state . . . he forgets that the power of the sovereign, even though legally unlimited, depends upon the skill with which it gives expression to the general will; if it disregards the general will there will come a point at which no amount of legal or constitutional machinery will avert disaster.[9]

8. Arthur Seldon's Introduction in Thomas Paine, *The Rights of Man,* Everyman's Library 718, J. M. Dent, 1906, reprinted with a new introduction 1958, pp. v–xiii.

9. A. D. Lindsay's Introduction in Thomas Hobbes, *Leviathan,* Everyman's Library 691, J. M. Dent, 1924, pp. vii–xxiv.

The legal and constitutional machinery of the twentieth century has not prevented the emerging revolt of the masses or the remonstrances of the bourgeois.

Hobbes was earlier refuted by the seventeenth-century philosopher, Benedict de Spinoza, whose Portuguese family fled from persecution to Holland. Lindsay repeats Spinoza's magisterial dictum:

> A sovereign has right insofar as he has might, and he has might only insofar as he rules in such a way that his subjects regard rebellion as a greater evil than obedience.[10]

The sovereign state is now having to retreat from social welfare and other superfluous functions. But it is retreating too slowly. The subjects are rebelling. And they will continue to rebel until government retreats sufficiently to liberate the freedoms created by economic advance.

10. A. D. Lindsay in Thomas Hobbes, *Leviathan*, Everyman's Library 691, J. M. Dent, 1924, p. xxiv.