

"PROPOSALS FOR EARNINGS-RELATED SOCIAL SECURITY" *

We were privileged to have Mr. Richard Crossman, Minister of Social Security, as our main speaker at the May meeting of the Association. There was a good audience of around 100 members and friends to hear Mr. Crossman discuss the economic basis to and the social psychology of the White Paper on Proposals for Earnings-Related Social Security.

The Minister began by saying that he had started work on the new proposals as long ago as 1955, so that they were in effect evolved in Opposition. He said that he had examined the Beveridge Plan and the reasons why it had failed to achieve its objectives before proceeding to reconstruct the contributor pension scheme. The theory of the Beveridge Plan was that we should all look after ourselves by contributory insurance. The State, employers and employees should all contribute so that we should all rise above mere subsistence level at old age and not have to rely on State charity. But the scheme had failed because National Assistance drew more from the start than the amount of the contributions, i.e., there was too high a percentage of people drawing National Assistance above the State pension. Another factor was the growth of occupational pensions with white-collar workers setting up a new standard of provision for old age. Thus, in 1954 there were two streams of people: those in good pension schemes, some of which provided two-third of final salary as pension (this represented deferred pay), and those who were not members of such schemes. In contrasting the two there were vast differences. Moreover, workers cannot save very much out of their wages or invest in equities. Indeed, personal savings are not much good, according to Mr. Crossman - what is needed are group savings.

In the light of the foregoing it became necessary to consider ways and means of levelling up (and Mr. Crossman emphasised his belief in the principle of levelling up rather than levelling down). It became necessary to transform the privilege of the few to the right of every citizen. What was wanted was a national scheme to provide for those outside private schemes benefits as good as those of private schemes. This was the philosophy behind the new scheme and it was good and valid to-day.

There had been an all-out effort by the Tory Government, said Mr. Crossman, to develop private schemes and he welcomed this. He wanted to see such schemes grow and expand. But there are always about 25% outside the private schemes in small

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shops, firms and farms, and the like. This would mean that there was always 25% of the population who would be subject to means tests in order to obtain supplementary benefits. It is essential, therefore, to work together, the private schemes in conjunction with the national scheme. This is the philosophy of the new scheme.

The Minister admitted that a scheme of national superannuation which is partially funded could lead to socialism by stealth in which most of industry was taken over and State owned, although he quoted Sweden's scheme with its admirable built-in self-control whereby it is not permitted to invest in equities. In this country there had been a marked increase in private occupational schemes, now numbering about 65,000, and Mr. Crossman referred to these as one of the most powerful instruments of savings. But to put down a partially funded scheme it would have to suck out of the economy in savings what are not really savings and would give no extra security to pensioners. Hence, it was necessary for the State scheme to collect year by year what it has to give out each year. The State scheme would provide the ground floor of pensions and the private schemes would provide the others.

Mr. Crossman made reference to contracting out and said that it would operate under the new scheme. However, the new scheme has no flat rate to contract out of and this posed the question as to what proportion of the graded element could be contracted out. How much pension responsibility should employers take out and how much should the State retain?

The answer to this question was not forthcoming at the meeting, and Mr. Crossman went on to stress the great economic importance of pensions. The problem was to redistribute wealth between those at work and others who are retired, sick or unemployed. There is no one way of doing this. The speaker said that we would be doing it through contributory pensions, but pointed out that there are other ways, as in Sweden and elsewhere. There is no right or wrong way, but the best approach is one that depends on national tradition and gets the money out of the people who are working without incurring claims for additional wages.

The Minister concluded by saying that he thought the best mix was private and insurance activities with State activities so as to maximise savings. It should lead to a growth in occupational and insurance schemes and was also the best way of getting every worker off the supplementary system. He also thought that an effort should be made to get transferability.

At this stage in the proceedings Mr. R. J. W. Crabbe, Chairman and Managing Director of the Provident Life Association of London and Chairman of the Life Offices' Association, and Mr. Arthur Seldon, Editorial Director of the Institute of Economic Affairs, put several questions to Mr. Crossman. In reply to a question about benefits or advantages from contracting out on the present scheme, Mr. Crossman said that firms or employers who had contracted out had done very well. Whether employees have done so well is another matter.

Mr. Crabbe said he would like to see equities and fixed interest securities as equal alternatives. He thought some dynamism should be introduced into the new scheme if people were to have confidence in it. Mr. Crossman said that it is not possible to do justice both to contractors out and to contractors in.

The next question concerned the creditability of the State scheme, and Mr. Crossman pointed to the German scheme which had survived two world wars and devaluation and had always paid its pensioners. The American Federal Government also had a good State scheme, and so had Sweden. If we are not much worse than these it should be possible to get a creditable scheme. Mr. Gordon Shaw, who was in the Chair, said that there was an element of funding in the German scheme and Mr. Crossman countered this by saying that Germans pay 22% of their earnings in contributions.

Mr. Crabbe thought an element of funding important and urged the use of occupational schemes as vehicles of such funding.

Mr. Seldon asked about a flat rate plus a graded element and said that there was a risk of reaching a high ceiling; how could people be convinced that contracting out was feasible? Mr. Crossman said that a flat rate is indefensible and is virtually a poll tax on poor people and not relevant to contracting out. The higher the ceiling, he thought, the higher the pension for which people would pay. He further thought that £33 per week would be about the right level. People who wanted higher pensions would prefer to have them outside the State scheme.

After the Minister had stated that the aim of the new scheme would be to get everybody off supplementary level within 20 years of the scheme, Mr. Seldon said that the aged poor are dying out and asked why the Government should concern itself with a problem which would disappear as we all became rich.

Mr. Crossman said that if a collective compulsory scheme were not provided, those at work would spend money and leave those out of work without means. It was only by schemes, private and national, that inflationary tendencies could be overcome. Once people have been raised above the destitution level they become interested in private insurance.

In a few felicitous words Mr. T. H. M. Oppe (L.O.A.) proposed a vote of thanks to the Minister for sparing valuable time to come and engage in this dialogue with our Association.

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