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How social security works: an introduction to benefits in Britain.

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1. What is social security?

[Chapter 1 of P Spicker, *How social security works,* 2011]

Social security is often written about in simplistic terms, as if it was only concerned with the relief of poverty, and the main debates are about how to do that more effectively. However, social security is provided for many other reasons: they include prevention, social protection, redistribution, and economic policy, as well as attempts to introduce economic and social measures which will benefit society as a whole. Further aims include compensation, income smoothing and the promotion of solidarity. There is much more to benefits than providing a safety net, or getting people back to work.

The idea of social security

In Britain, the term 'social security' is a term used for income maintenance provided by the state. 'Income maintenance' is the provision of financial resources when personal income is interrupted or insufficient. The social security system is mainly made up of benefits administered by the Department for Work and Pensions - such as Retirement Pension and Jobseekers Allowance - along with other benefits, including Housing Benefit, and Council Tax Benefit, administered by local authorities, and a new suite of benefits run by Her Majesty's Revenue and Customs (the UK tax authority), including Child Tax Credit and Working Tax Credit.

This is a fairly conventional classification, and like many conventional classifications it does not really stand up to close examination. The first question is, what are financial resources? Does a benefit cease to be social security if people get the goods, rather than the money? In many other countries, social security includes a range of activities well beyond financial support, including health care, but few people in Britain would think of the National Health Service as a form of income maintenance, because that is not how the health care system works here. Payments for social care, which have not been included in this book, are not currently classified as social security benefits. At the same time, several benefits which provide goods, rather than money, are treated as social security: examples are milk supplements and vitamins for expectant mothers, free school meals and school clothing vouchers. These are referred to as benefits 'in kind'[i], but it is very unclear why they are classified differently from the provision of services like medical care or nursing.

Second, is every form of income maintenance a form of social security? In Britain, the payment of rent is treated as social security, but it has been treated as part of the housing budget in the past, and the payment for support from housing management may be treated as social care. Fiscal welfare provisions - tax reliefs and allowances - are a form of financial support, but usually they are left out of the assessment. Agricultural subsidies are not usually thought of as social security in the UK, though they might be in other places - arrangements in Finland and Greece have put agricultural compensation together with social insurance for farmers.[ii] In the UK, legal aid is provided for people who cannot afford to take legal action, but that is not generally thought of as a social security benefit.

Third, is it essential that social security benefits should be provided by the state? In continental Europe, similar arrangements are used to provide benefits by non-state organisations: the system of pensions in France is administered in large part by a complex network of autonomous funds, while unemployment benefit is the responsibility of a convention agreed between employers and workers. Few people in the UK would think of insurance for mortgage protection or funerals as social security, but it takes very little to see privately funded arrangements in that light: several countries have built their national systems on the basis of voluntary contributions. Conversely, transferring the operation of benefits from the state to organisations does not mean that social security has ceased to exist. Before 1983, the National Insurance system offered Sickness Benefit to workers whose work was interrupted by sickness. Sickness Benefit was largely replaced by Statutory Sick Pay, which is paid by the employer. One way to explain this is to say that SSP has been taken out of the remit of the social security scheme; another, that employers have been coopted into the scheme. This sort of co-option is commonplace in other fields - for example, the administration of tax by employers - and it is questionable whether a different method of service delivery implies any major difference in principle.

Much of the way we think about social security which comes from our particular history, not from any obvious reasoning about the subject. For a British reader, social security is a national system, part of the Welfare State set up after the Second World War. If it was part of that system, like Retirement Pension, Industrial Injuries Benefit or Unemployment Benefit, it was social security. If it was not part of the system, like occupational pensions, life insurance or compensation in the courts, it was not social security. In other countries, where administrative systems are different, the definition of social security is also different. In the US, social security mainly means the social insurance system introduced in the 1930s by the Roosevelt administration, which covers old age, survivors, disability and sickness; other forms of income maintenance are 'welfare'. In Mexico, social security for families includes day care for pre-school children. In France, *la Sécu* means health insurance to most people; but unemployment benefits are administered under the terms of an agreement between employers' organisations and trades unions, and are outside the government's social security system altogether. People from different countries understand the basic concepts differently.

Reasons for providing social security

Social security is provided for many reasons. The system of government has been central to the development of social security in Britain, so most of those reasons reflect in some sense the policies of governments past and present, but the system also reflects the influence of other groups, like employers, the labour movement and the friendly societies. This section looks at the aims most commonly attributed to social security benefits.

The first is *the relief of poverty*. For many people in Britain, this seems to be the most basic function of the social security system, though as I shall explain it is not necessarily the main one. The relief of poverty is important partly because it has been highly influential in the development of benefits, but also because people from all shades of the political spectrum think that benefits ought to be about the relief of poverty. People who support the benefits system are critical when benefits fail to relieve people's poverty. People who oppose the benefits system tend to be critical when benefits are wasted, as they see it, by spending money on others who are not poor. Both these positions depend on the assumption that the relief of poverty is what benefits are supposed to do. That may be true, and it may not. Income Support was specifically geared to people who are on low income, which is not quite the same thing as poverty; others, like State Pension or Jobseekers Allowance, are not only available to people who are poor, but cover circumstances in which people might otherwise be likely to be poor; and some, like War Pensions or the universal pension for people over 80, have not much to do with poverty at all. (There are some relatively marginal benefits which I think can be argued to be directed towards 'the poor', like parts of the Social Fund and discretionary payments in social work. I discuss these in Chapter 21.)

In historical terms, the benefits system was not intended principally to relieve poverty. On the contrary, it was based in an attempt to break away from the relief of poverty, the principle which had dominated the provision of welfare for 350 years.[iii] This is part of a much broader set of issues, and I will deal with it in the course of this book. For the moment, all that it is necessary to say is that the reasons which follow are different types of reason for social security, and that if they apply, they imply other kinds of provision than the relief of poverty alone.

A second reason for providing benefits is the *prevention of poverty*. Poor relief is mainly concerned to stop people from being poor; that implies that their resources will be brought up to a minimum level. Preventing poverty calls for more than a minimal safety net. If people become sick, or unemployed, they should not, the argument goes, have to lose their possessions or sell their house as a result. One sometimes hears the comment that 'people on benefit have cars and television sets', as if this was somehow reprehensible. The question is whether they should be forced to sell their car or television before they can receive benefit. If the intention is to avoid people becoming poor, they should not.

This shades into a third reason, which is at least as important as the first two. Benefits are basic to *social protection*. The very idea of 'social security' implies that people ought to be able to feel secure. Security involves, not just being protected against poverty, but being protected or insured against the eventualities that are likely to arise through a sudden change in circumstances. Social protection is the most important principle in much of continental Europe: there are sometimes holes in their safety nets, but most workers will be protected in the event of old age, sickness and unemployment. For the United Nations, 'Social protection refers to policies designed to reduce people's exposure to risks, enhancing their capacity to protect themselves against hazards and loss of income.'[iv] The World Bank similarly explains: 'Social Protection interventions assist individual, households, and communities to better manage the risks that leave people vulnerable.'[v]

Social protection includes provision against poverty, and it can be seen as a way of helping to prevent people from becoming poor, but it is a much broader principle than either of those. Insecurity can produce hardship and need, but it is not just poorer people who can benefit from sharing risks. Social protection tries to avoid drastic changes in people's incomes. This means that benefits may have to pay more to people with more to lose: many benefit schemes in Europe take contributions according to earnings, and pay earnings-related benefits. If this means that richer people take more out, that is not necessarily a problem; they also have to put more in.

A fourth set of aims relates to *compensation*. People receive compensation - from courts, from employers, from insurers - in many kinds of circumstances; some of these are reflected in social security systems. Some compensation is for special expenses - the cost of disability or sickness. Some is for personal loss, like industrial injury or war pensions. Some is for the loss of earnings capacity, like the former allowance for reduced earnings in the industrial disablement scheme.[vi] The principle of compensation leads to some puzzlingly unequal results: people faced with exactly the same issues and needs will be treated differently if their disability results from an industrial accident, a traffic accident, a domestic accident or a medical intervention. But compensation is still, nevertheless, one of the most firmly established principles in social security across the world, and compensation for industrial injuries was among the earliest provisions to be generally established.

The fifth reason for benefits is *redistribution*: taking money from some people to move to others. Social security is described in some countries, not as a form of public spending, but a 'transfer payment' - it moves money from one person to another. This can be done for many reasons - not just to make people richer or poorer - and although it can be seen as an end in itself, attempting to make the distribution of income more just, it can also happen simply because that is what social security has to do. At the simplest level, redistribution is necessary because large numbers of people do not have any income, and roughly speaking the people in the bottom third of the income distribution have no other means of support.

Redistribution is much more complex than this implies, however. There are two main kinds. There is vertical redistribution, which goes between rich and poor; it is called 'progressive' if it goes from rich to poor, and 'regressive' if it goes from poor to rich. The other is horizontal redistribution, which goes from people in some kinds of circumstances to others in different circumstances. Jobseekers Allowance, which goes to people who are not working and on inadequate incomes at the expense of people who are working and paying tax, is progressive. Child Benefit, by contrast, is mainly a form of horizontal redistribution, going from people without children to people with children, and from men and single women to others. Chapter 26 considers the distributive effects of the benefits system.

Sixth, there is a process described by Barr as '*income smoothing*', where resources are effectively moved from the times when people are able to earn to those times when they are not.[vii] One way of understanding social security is as a form of compulsory saving, which happens most clearly in the operation of pensions schemes. Another way of understanding the same process is as a form of redistribution across the life-cycle.[viii] The mechanisms which are used to bring this about are confused, and confusing. Sometimes contributions are paid into a fund, and kept until they are required; that has been the system in relation to occupational and personal pensions, but not state pensions. Sometimes there is a nominal fund, but the accounts are never balanced. Sometimes there is no fund, and benefits are actually paid for by people currently in work. The 'National Insurance Fund' is not really a fund; it is an annual account, more or less equivalent to taxation.

Most of the reasons I have mentioned have in common that they are concerned with the circumstances of people who receive the benefits. The last of these understandings of social security points in another direction. The level of savings and the management of resources over time are not just matters for the individual; they are also issues in economic management. The seventh principle which guides social security, then, is *economic policy*. There is a naive view in some quarters that spending on social security is bad for the economy. There is no evidence to suppose that this is true; nor is there much evidence to support the contrary argument. Social security spending tends to be higher in richer countries, but that is because they have more money to spend. Within the industrialised countries, however, there is no clear association between social security spending and economic performance.[ix] What is true is that social security provision, in every industrial country, is very large. It must have substantial economic effects, for good or for ill. Saving, investment and wage rates have important effects on the economy, and social security regulates the way in which these occur. One view of pensions, for example, is that they are a form of compulsory saving (and occupational pension schemes, which invest the capital funds, are the largest bloc of investors on the stock market). Governments cannot ignore the economic impact of social security, and considerations of economic management cannot sensibly be divorced from decisions about benefits.

Economic management is an example of using social security, not just for the benefit of the recipient, but to achieve social objectives. The eighth reason for developing social security is that it is used *to shape people's behaviour*. This is often dressed up as an economic argument, in the form of discussion about 'incentives'. This is a complex subject, which I will return to, but 'incentives' are not just about how people respond economically. Incentives are used to change the way that people behave, by rewarding some behaviours and discouraging others.[x] If we want people to stay on at school, to leave the labour market, to look after children, to work for more or less of their lives, social security provisions are used to guide and steer the pattern of behaviour. It may not work - France has been trying, without success, to use social security benefits to encourage women to have more children for much of the last eighty years[xi] - but social security does, at least, play a part in such attempts. The principle of affecting behaviour extends further, because sometimes rewards and punishments are thought of as desirable in themselves, as a moral judgment on people's actions. An extreme example is the Child Support, Pensions and Social Security Act 2000, which made social security for offenders conditional on compliance with the terms of a community sentence.[xii]

All the aims and approaches considered so far have been about government. They are the kinds of reasons why governments should be involved in social security provision, and they give a sense of the kind of things that they want to achieve by doing it. But social security is not only made by governments: indeed, in much of Europe, governments came to the issue rather late in the day. Social security grew from traditions of mutual support, based partly in a desire for social protection, and partly out of a sense of mutual responsibility.[xiii] The ninth reason given for providing social security is usually referred to as the principle of *solidarity*. This term is rarely used in Britain, but it is frequently found in texts on social security throughout Europe.[xiv] Social security is seen not as charity, nor as government intervention, but as a form of mutual co-operation. For some, solidarity refers to mutual aid, and pooled resources: people put their funds together in order to protect themselves and others from socially recognised risks. This is the principle behind private insurance, and it applies no less to social insurance (which in many countries began through the development of mutual aid).

The idea of solidarity is used, not just to refer to mutual aid, but to think about social organisation. A society can be seen as a system of networks of solidarity: people who are part of those networks are said to be included, while those who are not part of them are excluded. The tenth reason for developing social security is, then, *promoting social cohesion.* The provision of social security is represented as part of the glue that brings a society together. In Catholic social teaching, solidarity is seen as a central principle governing the relationship of people to others in society.[xv] Solidarity is not, then, simply self-interested: it extends to redistribution because of moral obligations. This principle is extended to the rest of the welfare state.

These ten principles are probably the most important aims, but it is not a complete list. Others will be considered in the course of the book, especially when we get to more complex issues like provision for disability. There is much more to social security than the relief of poverty. It has been common for books about social security to focus mainly on the issue of poverty, but poverty is not the only test of social security - or even the most appropriate one. Equally, the suggestion in the Freud Review that benefits are basically about providing a safety net, or getting people back to work[xvi], seems very superficial. Benefits are about much more than that.

Questions for discussion

What are the other reasons, besides those in this chapter, why social security is offered?
What is the difference between social security and economic support for other activities, like farming or industrial subsidies?

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xii. G McKeever, 2004, Social security as a criminal sanction, Journal of Social Welfare and Family Law, 26(1) pp 1-16.
xiii. P Baldwin, 1990, The politics of social solidarity, Cambridge: Cambridge University Press.
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xv. N Coote, 1989, Catholic social teaching, Social Policy and Administration 23(2) pp 150-160.
xvi. D Freud, 2007, Reducing dependency, increasing opportunity, London: Department for Work and Pensions.