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## **Scrap Present System and Move to New Savings Account, says Politeia pamphlet. Distinguished economists show how to tackle unemployment**

Unemployment is back in the news. This week's crack down is on incapacity benefit - the tip of huge problem of 1.67 million unemployed and nearly 9 million economically inactive. The Government wants tougher tests. But benefit systems need more radical reform, says Politeia's new pamphlet, *Working to Account? Social Security Without Dependency*.

The pamphlet explains that social costs are rising in the UK and other western countries: jobs today are less secure as labour markets adapt to globalisation; ageing populations bring additional costs in pensions and healthcare bills. Yet benefit systems often make things worse and encourage dependency. What is needed is incentive to work, say the authors – the two international economists, Professors Peter Birch Sorensen and Lans Bovenberg.

The authors propose radical change. Instead of the present system, each person would own an individual savings account. Every taxpayer would pay a percentage of earnings into the account (and have the same amount deducted from his or her income tax). If no unemployment benefit were claimed the savings would grow. On the other hand, if benefit were drawn the account would be debited. On retirement, those with a surplus would be awarded a higher pension; and those in debit would have the standard public pension. The study shows that the classic aims of social insurance and the Beveridge system are thereby met – to provide liquidity insurance (cash benefits) and redistribute income over the lifetime. It illustrates by reference to Denmark where the system is based on 74% intra personal redistribution.

The advantages of such a system would be striking. The Individual Accounts would:

- Provide the same entitlements as now.
- Provide out of work cash benefits (liquidity insurance) and redistribute lifetime income.
- Protect individuals who would not otherwise save.
- Combat moral hazard - the disincentive to work by rewarding work.
- Protect the lifetime poor by bailing out people with a negative balance.
- Cut present bureaucratic 'churning'. In the UK 60-70% of income is redistributed to the individual over a lifetime. The individual, not the state, would own the account.

The gains would be impressive. Economies would gain with higher proportions of people in work. Societies would be richer with unemployment blighting fewer lives. Meanwhile those with bad luck in life are protected

**An advance e-version of *Working to Account? Social Security Without Dependency* will be available to journalists on request in response to this e mail**

\*Peter Birch Sørensen is Professor of Economics at the University of Copenhagen. Professor Arij Lans Bovenberg is Scientific Director of Netspar at Tilburg University. *Working to Account? Social Security Without Dependency* is published by Politeia and available online from Politeia ([www.politeia.co.uk](http://www.politeia.co.uk)).