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**Let People Own Their Benefit Funds, says leading economist. Individual welfare accounts proposed in new Politeia pamphlet.**

With mounting unemployment in the UK, the welfare state is under ever greater pressure. But it is ill-fitted to meet the rising demands created by recession. Politeia's new pamphlet *Banking Benefit: Welfare Accounts for the Individual*, explains that a fresh direction is needed so people can own their benefits and have greater incentive to work and save.

The authors, Professor Dennis Snower, the President of the Kiel Institute for the World Economy, and his colleague, Alessio Brown, explain that the welfare system is inefficient, unresponsive and without the mechanisms needed to change itself or change behaviour. Benefits account for around a third of all government spending and 11 percent of the UK's GNP. But people cannot use the assets unless, for instance, they are unemployed. Incentive and enterprise are therefore discouraged. The system is also without the means of self-correction. There is no competition; no price mechanism to reflect demand; and no encouragement for new producers to compete. The Government, which protects the system as a public monopoly, has 'soft' budget constraints, since it finds the money from tax. Efficiency and equity are undermined.

The authors propose a system of individual welfare accounts. People would 'own' the funds that finance their benefits and have the incentive not to waste them. There would be separate accounts for unemployment, education and training, health and retirement. The authors show how the transition to the new system would work and provide examples of the figures involved. The present arrangements can be used to finance the accounts, treating benefits as withdrawals. People could top up the amounts and transfer funds from one account to another. And at the end of working life a balance in the unemployment account could be used to top up pension. Redistribution would take place along current lines.

Accounts would be run on a PAYG (Pay as You Go) basis to begin with, though in the future they could be made fully funded. No generation would pay twice. Are they affordable? The evidence suggests the unemployment accounts would be self-financing, raising the incentive to work and cutting unemployment. The figures for France, Germany and Italy suggest a cut in unemployment rates of 50%, 36% and 34% respectively. The advantages would be numerous. The system would be more efficient and allow the private sector to compete. It would promote incentive and be popular with young people who have lost confidence that they will be supported in later life. It would also be transparent - so politicians would find it harder to go back on their promises to voters.

\* **Dennis J. Snower** is President of the Kiel Institute for the World Economy and Professor of Economics at the University of Kiel, Germany. Before that he was Chairman of the Department of Economics at Birkbeck College. His work examines the operation of labour markets and the welfare state. His recent books include *The Effects of Globalization on National Labor Markets: Diagnosis and Therapy*, (ed.) with Rainer Winkelmann and Klaus Zimmerman (Berlin, 2006).

\* **Alessio J. G. Brown** is Head of the research area 'Reforming the Welfare State' at the Kiel Institute for the World Economy and Executive Director of the Global Economic Symposium (GES). He writes on globalization and the welfare state.

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***Banking Benefit: Welfare Accounts for the Individual* by Dennis J. Snower and Alessio J.G. Brown**

For an E-version please click <http://www.politeia.co.uk/Portals/0/BankingBenefit.pdf>

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