BIRG
BIRG
BIRG

BASIC INCOME RESEARCH GROUP BULLETIN No. 6 £3.00 AUTUMN 1986

BIRG
BIRG
BIRG

BASIC INCOMES IN EUROPE AND FORMATION OF
BIEN

THE DEBATE ABOUT PENSIONS

A BASIC INCOME FOR YOUTH

SERVICE CREDITS: A DYNAMIC OF HOPE?

"A Basic Income scheme would aim to guarantee to each man, woman and child the unconditional right to an independent income sufficient to meet basic living costs".

THE BASIC INCOME RESEARCH GROUP was set up in 1984, under the auspices of the National Council for Voluntary Organisations, to find out whether the basic income approach to reform of tax and social security (as defined above) is economically, administratively and politically feasible; and if that proves not to be the case, to find out whether modifications can be introduced which would make it feasible.

BIRG is not a pressure goup, nor is it aligned to any political party. It is concerned to promote informed discussion and research throughout the European Community.

EDITORIAL COMMITTEE

Hermione Parker (Editor)
Susan Raven (Assistant Editor)
David Chapman
Chris Hall
Bill Jordan
Evelyn McEwen
Bob Morley

APPEAL FOR SPONSORS

In earlier editions of the Bulletin we appealed for support from all organisations and individuals who share our belief that there must be far-reaching changes in social security and personal taxation. We are delighted that literally hundreds of individuals and voluntary organisations have become BIRG subscribers. If you are not a regular subscriber, we hope that you will consider joining us by completing and returning the form on the back page. An annual subscription means that you receive two bulletins and are automatically invited to BIRG seminars. Subscribers are not committing themselves to support a Basic Income scheme. Rather, they are committing themselves to encouraging public debate about the desirability and feasibility of Basic Incomes.

Designed and printed by RAP Limited, 201 Spotland Road, Rochdale OL12 7AF Telephone 0706 44981

BIRG BULLETIN

No 6 Autumn 1986

CONTENTS

EDITORIAL

In earlier editions of the Bulletin we have already drawn attention to the growing international interest in reform of tax and social security along basic income lines. We are delighted to report the formation last September, by representatives of fourteen countries meeting at the University of Louvain-la-Neuve in Belgium, of a Basic Income European Network, which will be known as **BIEN**. The new organisation starts life under the auspices of the European Centre for Work and Society in Maastricht, thus emphasising the importance attached to the basic income idea by those concerned with the future of employment.

Radical reform of institutions as firmly entrenched as the tax and benefit systems of Western Europe requires a catalyst of considerable force, to convince politicians and electorates of the need for change, and to enable them to overcome opposition from those in positions of influence who prefer things as they are, and who are the butt of Andrew Brown's satire in this issue of the Bulletin. Increasingly it looks as though unemployment could become that catalyst. The danger is that those who are opposed to State-financed social security on principle may take advantage of the current difficulties to dismantle it entirely. Those of us who support **BIEN** do so in the belief that what is needed is a change of system, not a change of heart. The European social state has much to offer, but it must move with the times.

In Britain, regrettably, the government is more interested in moving backwards to the 19th century, reviving Victorian values, than forward to the 21st century. They are lamentably out of touch. Even the Green Paper on reform of the income tax published last March[1], which might have been welcomed thirty years ago, today finds few supporters. Not that the principle of independent taxation is disputed, just the Treasury's version of it. Allowing married couples to set their incomes for tax purposes against the tax allowance of either spouse resembles the systems in France and Germany, which are criticised there on the grounds that single people and unmarried couples are forced to subsidise married couples. But in Britain there is a double twist. Under British law unmarried couples are counted as married for social security purposes and have a liability to maintain each other, whether or not they think of themselves as married. Yet there is no suggestion in the Green Paper that they should accordingly be allowed to set their tax allowances against the income of either partner. Queen Victoria would approve.

At the root of many of the Government's problems is the Treasury's determination to emphasise a now largely obsolete distinction between tax-payers and beneficiaries. Logically the only way to preserve that distinction would be by abolishing national insurance in favour of a wholly means-tested benefit system, as proposed by the institute for Fiscal Studies in 1984[2]. That would ensure that people either received benefit or paid tax, and this may well be the Government's long-term strategy. But it was turned down by Mr Fowler in his Social Security Review, which retains a mixed system of national insurance and means-tested benefits. The positions adopted by the Department of Health and Social Security and the Treasury are therefore contradictory. For as soon as people receive benefits based on contribution and regardless of their other income, the chances are that they will both receive benefit and pay tax. Millions of today's retirement pensioners both receive benefit and pay tax. The income tax system is potentially by far the most efficient, equitable and non-stigmatising way to withdraw benefit from those who do not need it.

In the same Green Paper the Chancellor claimed that his proposed transferable income tax allowance of £58 per spouse per week at 1986-87 prices, would alleviate the unemployment and poverty traps, because single wage couples would pay no income tax below £116 a week, compared with £70 at present. What he did not say is that the new, higher tax allowance would be of little use to people without the income to set against it, that is couples with less than £115 a week or single people with less than £58 a week. Yet such people do exist and, significantly, there would be many more of them if paid work at those earnings levels were financially worthwhile.

It was precisely in order to help families on low incomes that former family allowance and child tax allowances were replaced by tax-free child benefit, which is a basic income for children. So long as the remaining adult income tax allowances are below supplementary benefits levels (as they have been for many years) the full force of the argument is diminished. But as soon as tax allowances are (rightly) raised above supplementary benefit levels, it once again becomes relevant. To use the Government's own language, the Treasury proposals are bad targeting, because they do nothing to help those most in need.

By contrast, if the adult tax allowances were converted, like child tax allowance, into adult basic incomes, then instead of the Chancellor's proposed new tax allowance of £58 a week (worth about £17 at 29% tax and £35 at 60% tax), each tax-payer would be able to deduct £17 from his weekly tax bill (regardless of his/her marginal tax rate), and people without any income of their own would receive an automatic cash benefit of £17. Instead of the complicated procedures for transferring income tax allowances between husband and wife devised by the Treasury, a non-earning spouse (like anybody else with no money) would receive £17 as a cash credit, and the earning spouse would pay more tax. The system would be completely neutral between married and single, infinitely easier to operate than the Treasury alternative and a far more effective means of combating poverty.

Among those who stand to gain most from basic incomes are elderly and disabled people with incomplete contribution records, or with a history of low earnings, and that is why we devote so much of this Bulletin to a discussion paper on basic incomes for the elderly. A discussion paper on disability basic incomes will be published next year.

There are two reasons why low income pensioners stand to gain from a move to basic incomes. The first reason is that the basic income would be paid as of right, without means-test and regardless of whether the disabled or elderly people had been in paid work. Instead of 13% of pensioners being left on income below supplementary benefit level[3], the effectiveness of the basic income safety net would be virtually 100%. The second reason is that the value of the pensioner basic income, unlike the State retirement pension, would be linked to living standards generally, through the income tax base, instead of being indexed to prices. It cannot be said often enough that the whole Fowler strategy for pensions assumes indexation to prices only. If a similar policy had been in effect since 1948, the basic retirement pension would now be worth less than £20. The Fowler costings rely on an increasing gap in living standards between those who depend wholly on the basic pension (or supplementary pension) and those with earnings-related and/or occupational pensions.

If the 1986 Social Security Act is implemented there will be a steady redistribution of income away from low income pensioners in favour of better-off pensioners, and away from the oldest pensioners in favour of those who are newly retired. A basic income strategy is quite the reverse. Tax-payers' money would be concentrated on the basic income safety net. The frills would be left to voluntary saving.

Once again we draw your attention to the BIRG seminars, details of which are published on the last page of this Bulletin. Please do not expect to receive any further notification. We are most grateful to the Suntory Toyota International Centre for Economics and Related Disciplines (ST ICERD), at the London School of Economics, for allowing us to use their seminar room during 1987. Please also make a note in your diaries that the **NATIONAL CONFERENCE ON BASIC INCOME** will be on Saturday 4th April 1987.

References:

1. *The Reform of Personal Taxation.* Cmnd 9756. HMSO 1986.
2. *The Reform of Social Security.* A. W. Dilnot, J. A. Kay and C. N. Morris. IFS 1984.
3. Low income families 1983. DHSS 1986.

A BASIC INCOME FOR YOUTH

PAUL LEWIS

The present tangle of benefits

It is hard to defend the present structure of income support for young people aged 16-19 years. What they get depends not on their needs but on what they are doing, and the different entitlements are neither logical nor coordinated.

Take first the case of 16 year olds who **stay on at school**. They themselves receive nothing at all, although their mothers continue to receive child benefit of £7.10 a week. Parents in receipt of supplementary benefit or long-term national insurance benefit may also receive an addition for each dependent child, and in a minority of local education authority areas the parent may also get a means-tested *educational maintenance allowance* (EMA), usually of less than £7.50 a week, during term-time. To be eligible for an EMA the parent's income may well have to be at supplementary level. Exceptionally the EMA is paid direct to the young person.

Young people who go to **Further Education College** may get a *books and travel* grant from the local education authority, usually worth about £100 a year.

School-leavers who join the **Youth Training Scheme** (YTS) normally get an allowance of £27.30 a week. Very rarely, they will get more. After one year on the scheme the allowance rises to £35. If they manage to find **paid work**, they will probably earn rather more than the YTS allowance and the first £44.90 a week will be free of income tax. No reliable figures exist for the average earnings of young people, but they are certainly less than the official recorded average of £64 for young women aged 16-17 and £70 for young men of the same age. This problem is discussed below.

If they register as unemployed and claim **supplementary benefit**, they will normally get the single non-householder's rate of £18.40 a week, rising to £23.85 once they are 18. But in order to claim supplementary benefit they must be available for work, which includes making some effort to find it.

This hierarchy of finance gives strange signals to young people. It creates a hierarchy of socially approved choices that a young person may make. The order of precedence is as follows:

(1) **Work,** if you can find it.

(2) **Join the Youth Training scheme.** The second year is 30% more worthwhile than the first.

(3) **Claim the dole.** Looking for work is 50% less well rewarded than training for it, but from age 18 you get 30% more.

(4) **Stay on at school or college**. No reward for yourself, but mother gets £7.10.

To these four we can add a fifth category, **occupation unknown**. For many young people do not appear to do any of these things. Some may genuinely drop out. But many others, especially young women, seem to take on family responsibilities, looking after younger brothers and sisters so that their mothers can go out to work, or looking after older, unemployed male relatives. This fifth group gets nothing from the state at all.

It was this extraordinary confusion of support that led Dr Rhodes Boyson, when he was a Minister at the Department of Health and Social Security, to refer to the "tangle of benefits" for 16-19 year olds. When the Social Security Review was announced in April 1984, it was hoped there would be an untangling. But the subsequent Green and White Papers and the Social Security Bill (now an Act) that followed have ignored the problem completely. Unless radical measures are taken, we shall continue to under-value education and family life by comparison with work, training for work and looking for work.

The function of work

Although work fulfills many functions, its major function for the individual is the distribution of wealth. Thus in 1984 about £156 bn was distributed through wages and salaries and a further £26 bn was earned through self employment.[1] Work is the primary income distribution network and getting a job is the key to gaining access to it. By contrast the secondary income distribution network through social security is hopelessly inadequate. That is why the real problem of unemployment is not loneliness or boredom, but poverty. In 1984-85 only about £40 billion was distributed through cash benefits, and much of that was used to top up incomes from work that were otherwise too low.

Yet as a means of distributing income work seems to be failing. Between three and four million people are looking for jobs. Some people think that the plight of the unemployed results from major and irreversible changes in the economy, and it is partly this fear of an economy permanently unable to provide work for more than six out of every seven who want it that has created the resurgence of interest in the idea of basic incomes. One of the main features of the basic income principle is to break, at least partially, the link between incomes and paid work. It follows that a basic income system would introduce a new and different way of distributing wealth.

The link between work and reward

For young people the link between work and reward has already been severely weakened. There are three main elements in that process:

(1) **Worsening unemployment**. Young people have been affected more severely by unemployment than any other group. At any one time a quarter of those aged 18-19 are unemployed, compared with one in

ten of 35-44 year olds, who are the most favourable age group. Among minimum age school-leavers paid work is now a minority activity. Each year over 350,000 of them join the Youth Training Scheme. They do not do that as an alternative to education but as an alternative to work. The YTS has replaced work with training for work.

(2) **Fewer full-time jobs.** Even those who do get work can no longer take for granted that work means a full-time secure job. Today about one in four of all teenagers in paid work are working part-time, compared with 6% (or one in 17) in 1979. The trend is the same for young men as for young women, but has not been found among older workers. Moreover for young people even full-time work is often short-lived. Department of Employment figures show that a young person aged 16 or 17 has a 20% chance of losing his or her job within three months, compared with a 4% chance for 30-34 year olds.[2]

Conversely, once unemployed the likelihood of getting another job within three months is 75% for a young person compared with only 37% for an older person.[3]

(3) **Lower relative pay.** The rewards paid to young people in paid work, and hence the degree of access that work gives them to the primary income distribution network, have fallen by comparison with other age groups. In this context it is becoming clear that there are serious problems concerning official estimates of the average incomes of young people. For April 1985 these were recorded at £64 for women aged 16-17 and £70 for men of the same age.[4] These figures were based on a sample of employers' national insurance contribution records, and they therefore exclude anyone with earnings below £35.50, which was the threshold for paying NI contribution at that time. But surveys of young people leaving the YTS for work and of those participating in the Young Workers Scheme show that between a fifth and a third earn below the NI thresholds.

The recorded average earnings of young people under 21 has in fact fallen substantially since 1979 compared with the earnings of people aged 21 and over. Young women aged under 21 were about £1 a week better off in 1985 than in 1979, but women aged 21 and over were more than £11 a week better off on average in 1985. Young men aged under 21 were on average about £1 a week *worse* off in 1985 than in 1979, whereas men aged 21 or over were on average £18 a week better off in real terms. As a result of these changes, most young people have not shared in the growth of rewards for work.

As a result of these changes the link for young people between income and paid work has already been weakened. And the notion that work is an essential part of life has certainly weakened. In the past the *work ethic* was transmitted to each new generation of young people by adults. Now those same adults are in charge of a world that is denying young people the chance to work. It follows that their exhortations to work sound hollower than ever.

Despite this weakening of the work ethic, the desire for work is still very strong among young people. In a survey carried out by Youthaid in 1985 among young people who had rejected the Youth Training Scheme, 86% said that "work would make me feel I was doing something with my life," and 52% said they would be willing to work even if they were no better off than on the dole. When we asked what they would prefer to be doing next year — further education, the YTS, a job or the dole — 88% said "a job".

A basic income of youth

Many of the difficulties in the present structure of benefits derive from the attempt to separate young people into two distinct groups — those in education and those in work. The former are treated as dependent on their parents, whereas those in the job market are treated as independent and given an income of their own. Moreover the two groups are the responsibility of different Government Departments.

Any change in provision should start by answering this question:—

> "How should society support its young people through the transition from childhood to adulthood?"

Any new provision must provide them with status as well as income, and must enable them to be participating members of society.

One way to approach this problem would be by introducing a basic income for young people ahead of other groups in society. Everyone aged 16-19 could be given a basic income of, say, £30 a week. This would replace existing income tax allowance (currently worth 29% of £44.90 or just over £13 a week) as well as the dole, the YTS allowance, all school and college grants and allowances below major award level, and also the child benefit currently payable to the mother. Indeed the new basic income could be seen as simply an extension of child benefit, higher in amount and paid to the young person rather than the mother. Those out of work could not realistically live on the basic income, but they would be eligible for housing benefit on top.

The gross cost of paying £30 to every person aged 16-19 would be of the order of £4 billion a year, but the net costs would be less because of the savings on existing grants and allowances.

Effects of the change

The proposal is not so radical as it first appears. The Labour and Liberal Parties both propose to introduce an allowance for all young people in education up to the age of 18. And the House of Lords Select Committee on the EEC proposed a similar allowance in a report on Youth Training in 1984.[5] Its introduction would nevertheless be bound to arouse controversy. It would overturn the peculiar notion that up to a certain age young people who are not in paid work (or looking for it, or training for it) should be dependent on their parents. It would give young people status and some independence. The relationship between young people and their parents, which many see as essentially one of discipline, would be changed.

There would also be objections from people who did not want to give the basic income to the children of rich parents. These objections would probably come as vocally from the right, which wants 'help' targeted, as from the left, which does not want to subsidise the rich. But in fact it could be made the opportunity for removing many existing, hidden subsidies, for instance tax-free deeds of covenant.

Other effects of the change would be to encourage education and employer-financed training (as opposed to YTS), to reduce the level of registered unemployment, to encourage the current part-time and short-term work culture, and to reverse wage cuts. It would give status for the first time to work in the parental home. And it would allow those who wished to do so simply to drop out of the search for work.

Overall it would undoubtedly have beneficial effects for young people. Most important of all, it would provide an important test-bed for some of the principles of basic income.

Paul Lewis is Director of Youthaid.

References:

1. CSO Blue Book *UK National Accounts 1985* Table 4.1
2. Department of Employment Gazette February 1986
3. *Ibid*
4. New Earnings Survey April 1985
5. *Youth Training in the EEC.* 1983-84 session. House of Lords 282, para 92.

BASIC INCOMES AND ELDERLY PEOPLE

A DISCUSSION PAPER

This report is an attempt by BIRG's working group on the elderly to summarise the dilemmas and problems which arise when the basic income principle is applied to the needs of the elderly. It is based on a series of meetings held in 1985 and early 1986 and it incorporates the comments made by working party members on an earlier draft.

We started from the definition of a full basic income agreed by BIRG's Research Panel in 1985. Thus a basic income would aim to guarantee to each man, woman and child the unconditional right to an independent, non means tested, tax-free income sufficient to meet basic living costs, irrespective of occupational or marital status. All other incomes would be taxable. This means that the basic income replaces existing income tax allowances for people with other income. It also replaces existing social security benefits for those who are unemployed, incapacitated or retired. With basic incomes all earnings restrictions would be abolished. People would be free to build on their basic incomes by taking paid work, but they would have to pay tax on all their earnings. For retired people and for people approaching retirement, this immediately raises a problem. A basic income scheme must continue to pay the universal basic income to retired people, but it must also address the issue of income in retirement, including the transitional stage between active economic participation and complete withdrawal from the labour market.

Nature and purpose of retirement pensions

The first problem that the BIRG working group had to tackle was the absence of any generally agreed assumptions amongst "experts" or the population at large, concerning the nature and purpose of income in retirement. Surprisingly, there is no real consensus about the concept of retirement. Is it something that workers "earn" through their labour during their working lives? Or is it a period of relative freedom, relaxation and reflection to which everyone should be entitled at the end of their lives? The former notion implies that income in retirement, and indeed retirement itself, should depend on previous work effort and previous earnings. It is of the nature of a reward, whereas the latter implies that a certain lifestyle and income are provided as of right to all citizens in old age, irrespective of their work record. The former implies a withdrawal from activity, whereas the latter leaves the way open to continued, or even enhanced social participation.

Dr Eric Midwinter has drawn attention to the low rates of social participation among pensioners, which he relates not merely to loss of income in retirement, but also to the passivity and social exclusion that has been built into the concept of pensioner as welfare-beneficiary rather than as a full participatory citizen.[1] The retired have been culturally conditioned to the expectation of a sudden or gradual withdrawal from the active life of the community, and this has made them more willing to accept the limited income maintenance provision allotted to them by the state.

This acceptance of reduced participation may help to explain the repeated research findings that pensioners are, on average, more "satisfied" than other groups with the quality and quantity of social services they receive from the major welfare agencies. Thus in the Gallup Poll survey of public attitudes carried out for the Department of Health and Social Security in December 1984 and January 1985 as part of the *Social Security Review*[2], retirement pensioners were the group least dissatisfied with the system. Only 16% said they were dissatisfied compared with 36% of recipients of family income supplement and free school meals. Dr Midwinter argues that their image of what their lifestyle should be like moulds them for the passivity and uncritical acceptance which is the counterpart of the paternalism of so much of our social provision.

Another reason may be that pensioners, even those on supplementary pension, are better off than some other groups, especially families with children. The 1985 MORI/London Weekend Survey, published in the book *Poor Britain* by Joanna Mack and Stewart Lansley,[3] identified a check list if items agreed by a sample of the population as essential. The survey team then set out to discover how many of those who reported themselves as lacking those necessities did so by choice and how many could not afford them. Among those on supplementary benefit almost as high a proportion of pensioners lacked three or more necessities as families with children. But the pensioners were far more likely to report themselves as doing without items **by choice**. Only 37% of pensioners said their lack of the essentials was enforced, compared with 60% of families with children.

The survey also found that pensioners on low incomes were somewhat better off than comparable non-pensioner households, even allowing for the propensity of pensioners to 'do without' essentials. When the bottom 40% of households were compared, 33% of pensioners and 37% of non-pensioners did not have three or more necessities, and when **enforced** lack of necessities were compared the proportions were 13% for pensioners and 37% for non-pensioners. Mack and Lansley comment:

> Among pensioners whose current income is low, there will be a significant proportion who can call on savings for emergencies and for special occasions or holidays, and many will have made sure that their household goods and furnishings were in good condition before they retired. Many low-income families, by contrast, will never have experienced times when money was in anything but extremely short supply.[4]

The need for family budgets

BIRG has always emphasised the need for systematic research in order to find out how much income families of different composition need to live at a "modest but adequate" or "moderate" living standard. No up-to-date research is available which would enable us to draw up family budget standards for pensioners, nor for any other group. The approach of government has been, and remains, to pay 'what we can afford', with pensions regarded as a welfare benefit, not a right of citizenship.

What we do know is that the present basic state pension is insufficient to meet the income needs of retired people. In 1985-86 an estimated 1.8 million pensioners were in receipt of supplementary pension[5] and a further 2.5 million were in receipt of means-tested housing benefit.[6] Moreover some of those claiming housing benefit were among the 3.2 million with an occupational pension. In the long run the state earnings-related pension scheme (SERPS) will lift some pensioners out of means-tested benefits and this is one solution to the problem. But the objective of a basic income scheme would be to provide a **basic pension** sufficient to lift **all** elderly people off the need for means-tested benefits.

Even without family budget standards, it would be relatively easy to calculate the minimum acceptable basic income for pensioners. Provided there were a national minimum wage. This could serve as a benchmark. For example, assuming a national minimum wage of £100 a week and that spending power (net of taxes and work expenses) should be approximately the same for a retired person as for a worker earning the minimum wage, the figures can be set out as in Table 1.

Table 1: A basic pension linked to a national minimum wage

Assumptions:	
Partial basic income (all adults)	£ 25 per week
National minimum wage	£100 per week
Starting rate of new income tax	40%
Earned income tax discount of 40% gross earnings, with a maximum deduction of £10	

Minimum disposable income from paid work		**£ per week**
Gross earnings		£100
+basic income		£ 25
–income tax (40% £100 less £10)		£ 30
–work expenses	(say)	£ 10
Disposable income		£ 85

The basic income necessary in old age to maintain living standard equivalence with a worker on the minimum wage (including £25 universal, partial BI) **is about £80.**

That figure allows £5 (in addition to work expenses) for the disutilities of work. It is closely in line with Dr Midwinter's proposal for a minimum pension of £80.[7]

The extra cost of disability

The huge increases in expenses incurred by elderly people in need of physical assistance or nursing care make a nonsense of any single, flat rate basic income for all elderly people. Some will need far more. It follows also that any estimate of the retirement income needs of elderly people must take account of of the services provided through the health service, the local authorities and the private sector. The quality and charges for these services vary from area to area, as do the proportions available through the state and through the market.

One approach to this dilemma would be to deal with the costs of infirmity due to extreme old age partly through an additional old age basic income supplement (payable universally at a gven age, say 85), and partly through a more fine-tuned and individualised disability costs allowance. In her BIG scheme costings Hermione Parker allows just over £2 billion a year to finance a disability cost allowance. But this DCA is intended to finance the disabilty costs of all handicapped and disabled people, not just the elderly.

Counterbalancing factors

So far this report has concentrated on the difficulties of calculating a socially acceptable basic income for the elderly. But there are counterbalancing factors and in some respects the elderly should be the easiest group to provide for in this way.

Firstly, although there is no agreement about the nature and purpose of retirement, there is a wide measure of agreement that the elderly should have a largely unconditional inome from the state. This cannot be said for any other group, except perhaps the long-term sick and disabled. There is certainly no agreement that the working-age population should have an unconditional basic income, nor married women, and child benefit is a much more contentious political issue than pensions. In other words, the question concerning elderly people is not whether they should have a basic income at all, but rather at what level that income should be set and the living standard that any given income would sustain.

Secondly, althouth everyone in the group agreed that the present basic state pension is too low, there was also an awareness that it forms only part of the incomes enjoyed by many elderly people. One of the problems with the existing system is the wide disparity of income distribution between retired people as well as between retired people and the rest of the population. Increasing numbers of pensioners have other sources of income, usually from occupational or private pensions. This is a trend whch seems likely to continue and it raises the question of the tax treatment of elderly people, which is discussed below.

A third factor which makes basic income less problematical for pensioners than for people of working age is housing. The extreme variability of housing costs, which makes full basic income impracticable for people of working age, is not nearly so acute among the elderly population. Statistics show that the proportion of elderly people who own their own houses outright is far larger than any other group in the population. About one quarter of all households are outright owners, and over half of these are pensioners. In 1983 about 44% of heads of household aged 65 or over were outright owners.[8] And generally speaking outright owners have lower housing costs than mortgagors. It follows also that mortgage interest tax relief, which most basic income schemes would abolish, is of less importance to pensioners than to the working age population.

Pensioners are also disproportionately represented amongst council tenants, and again this helps to standardise housing costs among pensioners. In 1983 an estimated 38% of heads of household aged 65 or over were council tenants[8]. Generally speaking therefore a higher proportion of elderly people than of people of working age achieve the relative security and comfort of either outright ownership or local authority housing.

None of this is meant to imply that a basic income scheme would be more concerned with the needs of other, more 'deprived' groups than pensioners. On the contrary, as Hermione Parker's illustrative BIG schemes show, it is possible to finance substantial increases in basic pensions through a basic income approach, **provided** there is the political will to reduce the net incomes elsewhere. There seems to be no economic reason why virtually all pensioner households should not be lifted off means tested benefits.

The tax treatment of pensioner incomes

The guiding principle of a full Basic Income Scheme is that all basic needs are met in full and all other income is taxable. The taxation of all other income is necessary in order to claw back through the tax system the basic incomes of the well-to-do. In other words the income tax acts like a means test. But it is important nevertheless to be sure that low to middle income pensioners do not lose out as a result of the change. Indeed one of the objectives of basic income reform is to **increase** the non means tested resources of low income pensioners.

Table 2: Existing NI basic pension and age allowance, compared with basic incomes in BIG 1(a) scheme. January 1985

	Existing system		BIG 1(a) 1984-85		
	NI basic pension £	Age allowance £	Partial BI £	Old age BI supplement £	TOTAL PENSIONER BASIC INCOME £
Single person	35.80	47.88	22.50	32.50	55.00
Married couple	57.30	76.05	45.00	65.00	110.00

If the *age allowance* were to be abolished without making pensioners with incomes below the age allowance upper limit worse off, then it seems right that the basic incomes for pensioners should be at least equal to existing age allowance. The figure work is complicated by the fact that tax allowances are uprated each April, whereas benefits are still uprated each November. Table 2 illustrates the position as it would have been in January 1985, and compares the national insurance basic pension and the age allowance at that time with the partial basic incomes and old age BI supplements proposed by Hermione Parker in her BIG 1(a) partial BI scheme. It is emphasised that these figures are still at an early stage of enquiry. More work is being done to check that the costings are correct and to find out the redistributive effects in detail. And more discussion is necessary on the *pros* and *cons* of a standard old age BI supplement for every pensioner regardless of household status, by comparison with a smaller old age supplement **plus** a further addition for householders, or for pensioners living alone. A living alone addition would concentrate the money where it is most needed, but would be more complicated administratively and might add to the number of pensioners living alone.

The BIG 1(a) proposals would certainly raise the living standards of pensioners at the bottom of the income scale and could be made to lift virtually all pensioners off the need for housing benefit. But to be revenue neutral BIG 1(a) requires a starting rate of income tax, on all other income, of 40%. For the working population the increase is not significant, because the new tax would replace national insurance contribution at 9% (contracted-in rate) as well as income tax. But the position of pensioners is quite different, because they do not pay national insurance contribution.

Under the existing system pensioner incomes, like investment incomes for all age groups, are less heavily taxed than earned incomes, because they are not liable for national insurance contribution. Yet it is arguable that the taxable capacity of pensioners and shareholders at any given income level is *more* than the taxable capacity of wage and salary earners, because the latter have work expenses to contend with. In theory there seems to be no reason why retirement incomes and investment income should not be treated in the same way for tax purposes as all other income, and be subject to the same starting rate of tax. A 40% starting rate of tax plus a much higher basic pension would probably have the effect of redistributing income **between** pensioners, for the sake of making those at the bottom better off. Arguably this might be one of the primary aims of a basic income approach. But again great care would be necessary to limit the tax increases to those with big occupational pensions or a large amount of investment income. Much more work is necessary before the group can make any specific recommendation.

State earnings related pension (SERPS)

Voluntary groups which rallied to the defence of SERPS when the *Social Security Review* Green Paper threatened its abolition, made it clear that they will continue to defend SERPS until a better scheme is put forward. Yet one of the major issues, which should be part of the debate on the future of social security, is whether a small basic pension plus SERPS is preferable to a much larger basic pension without SERPS. Moreover the parameters of the debate are no longer as they were in 1975. The small basic pension which is currently on offer is indexed to prices, not earnings, and as a result it will gradually come to represent a smaller and smaller proportion of the total pension package and a smaller and smaller percentage of average earnings. The full redistributive effects of recent pension changes will depend very much on future increases in prices and earnings. The figures in this section, based on the Government Actuary's assumption that real earnings will rise each year by 1.5% more than prices, produce the following startling conclusion: **By the year 2023-2024, when this year's 25 year olds are nearing retirement, the basic pension may well be worth only 11% of average earnings, compared with 19% in November 1985. It is as though today's basic pension for a single person were £22 a week, instead of £38.**

The report by the Government Actuary on the Financial Effects of the Social Security Bill 1986 on the National Insurance Fund[9] makes the position crystal clear. Spending on pensions, at constant November 1985 prices, will be **less** as a result of the Social Security Bill changes than it would have been if SERPS had been abolished and the existing basic state pension uprated in line with average earnings. By the year 2033-2034 total estimated spending on state pensions will be £10.6 billion less than if SERPS had been abolished and the basic pension indexed to earnings. The combined effect of breaking the link between the basic pension and average earnings and of the new, revised SERPS will be an enormous redistribution of income between the working and retired population, as well as within the pensioner population. The scale of that redistribution by the year 2033-2034 shows up in the final column of Table 3.

In future there will be two categories of pensioners, those with a good steady earnings record and a big chunk of earnings related pension, and those without. The gainers from this redistribution will be regular earners with a record of earning steadily near the Upper Earnings Limit (UEL), especially two earner households each with a record of earnings close to the UEL. Losers will be (predictably!) irregular and low earners and one earner households, including some with earnings well above the UEL. At this stage it is hard to estimate the size and nature of the cross subsidies. But there seems little doubt that taxpayers' money will be used to consolidate the inequalities of working life, carrying them over into retirement. Lower paid working people will be charged tax to finance the earnings related pensions and private pension tax reliefs of others who could well afford to save voluntarily. The **relative** living standards of supplementary pensioners will be lower than ever before.

The government's strategy of cutting the link between pensions and earnings is based on the assumption that the retail prices index is an accurate measure of living standards, even over a long time period. This view is made clear time and again in the *Social Security Review*, yet there are no figures to substantiate it and it seems most improbable, for needs as well as costs change over time. This is why a basic pension today of £22 a week is unthinkable, and it is also why pensions were uprated in line with earnings rather than prices during the immediate post World War 2 period, although there was no statutory indexation.

**Table 3: Expenditure on retirement pensions
Estimated costs, at November 1985 prices**

	£ billion at Nov 1985 prices					
	1985-86	1993-94	2003-4	2013-14	2023-24	2033-34
Option 1: **Flat rate pension, indexed to earnings**	17.4	19.4	22.5	28.8	37.0	47.2
Option 2: **Flat rate pension, indexed to prices**	17.4	17.4	17.4	19.2	21.2	23.4
+SERPS (new scheme)	0.1	1.1	4.2	7.5	10.3	13.2
=Total expenditure	17.5	18.5	21.6	26.7	31.5	36.6

Source: Social Security Bill 1986, Report by the Government Actuary on the Financial Effects of the Bill on the National Insurance Fund. Cmnd 9711. January 1986. Tables 1 and 2.

Assumptions: Real earnings growth of 1.5% a year.
Prices increased by 5% a year
Unemployment 6%

With a basic income scheme income support is automatically linked to earnings through the income tax base. Ideally the basic incomes would be the responsibility of a *Transfer Income Account,* separate from the rest of the government's accounts, and the revenues from the new income tax would be hypothecated to that account. Thus every year a decision would have to be made, whether to increase the basic incomes or to reduce the rate of income tax. It would be the duty of those responsible to ensure an equitable and efficient balance between the working and the non-working population. It is a classic pay-as-you-go scheme, what the French call *repartition*.

If SERPS were abolished, existing rights would have to be protected. Anyone entitled to SERPS would receive any excess above the new basic pension to which they had entitlement. But the acquisition of new rights would stop. The gain for previously lower paid pensioners would be that, since the overwhelming majority would be lifted out of means-tested benefits, their savings would be worth something to them, instead of just serving to lift them out of entitlement of means-tested benefits. One possible short-term compromise would be to continue the SERPS scheme to top up the universal basic income. But this would leave far more pensioners on means-tested benefits, and it cannot solve the important issue about whether SERPS is an obstacle to higher basic pensions.

Occupational pension income tax relief

Another contentious issue concerns the income tax reliefs for private and occupational pensions. The costs of the individual reliefs in terms of revenue foregone, as estimated by the Inland Revenue, are shown in Table 4. It is important to emphasise, as Geraldine Kaye has pointed out,[10] that the Inland Revenue figures are in a sense "funny money", for if the tax reliefs were abolished it by no means follows that extra revenue equal to the amounts shown in Table 4 could be raised. On the other hand the technical difficulties involved in trying to calculate the costs of occupational pension tax reliefs do not reduce the force of the argument that they help those most who are best able to help themselves, ie those who can afford to save.

It can also be argued that pension tax reliefs on so large a scale give artifically advantageous treatment to pension funds, in a way which is potentially harmful to economic efficiency and to democracy. The basic income approach would aim to recirculate these tax expenditures into the pockets of average households, encouraging voluntary savings by lifting people off means tested benefits. Hermione Parker would like to go further and examine the possibility of a **savings premium** for the lower paid, to be financed out of taxation. For example, for every £1 saved, the government might add 30 pence on a sliding scale, according to gross earnings and family size.

Table 4: Estimated costs of pension tax reliefs, 1985-86

Type of relief	£ million
Employees contributions to occupational pension schemes	1,400
Employers' contributions to occupational pension schemes	2,200*
Investment income of occupational pension schemes	3,500
Lump sum payments to pensioners	1,000
Retirement annuity premiums	325
Life assurance premiums (contract pre-dates 14 March 1984)	640

Source: Public Expenditure White Paper Cmnd 9702-1, January 1986, Table 2.24.

Notes: The total cost of tax reliefs for pension schemes cannot be calculated by adding together the costs of the individual reliefs, as this would imply a considerable degree of multiple taxation.

*Tentative figure, subject to wide margin of error.

The age of 'retirement'?

Under existing arrangements women can retire on a full state pension at age 60, whereas men have to wait until they are 65. There is virtually no support for the continuation of this arrangement, but there is support for the idea of a flexible retirement age.

With a full basic income scheme, retirement age is automatically flexible, because very citizen has an independent income sufficient to meet basic living costs whether or not they are in paid work and regardless of age. The figures show however that a full basic income Scheme would be prohibitively expensive, which is why BIRG is at present concentrating on partial B1 schemes. In her costed BIG schemes, Hermione Parker assumes that the old age B1 supplement would not be payable until age 65, for men and women alike, although if a person became long-term sick or disabled s/he could get an invalidity B1 supplement (equivalent to the old age supplement) at any age. This is tantamount to allowing people *partial* retirement at any age, but raising the *full* retirement age to 65 for everyone, except that with basic incomes there would be no retirement age as such, because all earnings restrictions would be abolished.

Parker argues the case for concentrating resources on people aged 65 and over, and on invalids and disabled people, on financial grounds. It is a question of targeting limited resources where they are most needed. If the B1 old age supplement were made payable at age 60, there would be less money available for those over 65. The reason why this is not so unfair to women as it may appear is that the universal partial basic income gives everyone an unconditional independent income, and thus introduces an element of flexibility and choice over the age of retirement for both men and women. Although much has been written in recent years about the need for a "decade of retirement", no concrete proposals have been put forward by government. The basic income approach to income maintenance tries to fill parts at least of that gap, and goes further, by offering people the opportunity to vary their participation in the labour market at any age.

Summary and conclusions

The basic income principle is difficult to apply to elderly people until more is known about their income needs, including the needs of the very frail and the disabled, both at home and in institutions. On the other hand in certain respects, for instance in relation to housing costs, the elderly may be less difficult to provide for through basic incomes than other groups.

Already there is a wide consensus in favour of providing unconditional benefits for retired people, although opinion is divided on the question of means testing. In some ways therefore elderly people appear to have less to gain from the basic income *principle* than other groups. But because of the haphazard effects of present regulations (eg contribution records, earnings rules, marital breakdown and so forth), as well as the inadequacy of present pension rates, in practice most pensioners have much to gain from the introduction of basic incomes.

The basic income principle ends discrimination against people with an incomplete work record, for instance married women. It treats all citizens alike. At present, as Evelyn McEwen has pointed out, there are a significant number of elderly people who do not receive a full pension, either because they are dependents, or because of incomplete contribution records. Thus in 1981 nearly 2 million women received the lower married women's pension. In 1980 about half a million received pensions in their own right which were reduced on account of deficient contribution record.[11]

A citizenship payment principle would put an end to these anomalies and, if big enough, would minimise means testing, remove the pensioner *poverty trap*, help to make the dream of flexible retirement a reality and prevent the poverty in old age that stems partly at least from the complexity, stigma and in many cases inaccessibility of the present web of means tested benefits.

The BIRG Elderly Group who contributed to this discussion paper comprised the following individuals, who do not necessarily subscribe to all the views set out in the paper:

Evelyn McEwen (Age Concern)
Dr Eric Midwinter (Centre for Policy on Ageing)
Sue Ward
Peter Basten (Bacon & Woodrow)
Geraldine Kaye (City University)
Bill Jordan (BIRG Joint Chairman)
Hermione Parker (BIRG Joint Chairman)

References:

1. *The wage of retirement: the case for a new pensions policy.* Dr Eric Midwinter. Centre for Policy on Ageing. 1985.
2. *Reform of Social Security.* Background Papers. Volume 3. Cmnd 9519 HMSO 1985.
3. *Poor Britain.* J. Mack and S. Lansley. George Allen & Unwin 1985.
4. Mack and Lansley, *op. cit** pp 116-7.
5. *Public Expenditure White Paper*, Cmnd 9702-11 Table 3. 15.6.
6. *Pensioners and the reform of social security.* Age Concern, 1985.
7. Midwinter *op. cit.*
8. *General Household Survey 1983.*
9. *Social Security Bill 1986. Report by the Government Actuary on the Financial Effects of the Bill on the National Insurance Fund.* Cmnd 9711, January 1986.
10. *Taxation of Pension Funds*, Geraldine D. Kaye, The City University, Pensions Research Paper No. 1.
11. *Evidence to the enquiry into provision for retirement.* Age Concern, 1984.

SAFEGUARDING SOCIAL SECURITY IN THE NETHERLANDS

JOS DEKKERS

The following article is based on an address given by Jos Dekkers to a BIRG seminar on International moves towards Basic Incomes, *held in London in January 1986. Apart from health insurances, the existing Netherlands social security system uses a mixture of (a) contributory, national insurance schemes, providing flat rate old age, widows', disability and tax-free child benefits for every child, (b) contributory, earnings-related employee insurances against unemployment, sickness and disability (on top of national insurance), (c) means-tested national assistance and (d) a means-tested housing benefit. Finally there is also a statutory minimum wage, and this determines the level of the guaranteed national minimum income. For a couple the net minimum social security benefit amounts to 100% of the net minimum wage, for lone parents 90% and single persons 70%. National assistance and housing benefit are funded out of central government tax revenues. National assistance is administered by the local municipalities under central government regulation.*

The need for change

In the Netherlands, as in many other industrial countries, there is an increasing realisation of the need for fundamental reform of social security. Up to now government has been chiefly concerned about the steeply rising burden of public expenditure on social security. Up to now government has been chiefly concerned about the steeply rising burden of public expenditure on social security, which has risen from 8% of net national income in 1960 to 24% today. The response of the Netherlands government has been to reduce benefit rates for unemployment, sickness and disability insurance benefits from 80% to 70% of previous earnings and to resort to increased use of the means test in most social security programmes.

But the social security crisis is not just financial. There are other social and economic reasons why reform of the basic principles of social security is necessary. The report *Safeguarding Social Security*, published by the Netherlands Scientific Council for Government Policy, contains an analysis of these developments and proposes a fundamental reform of social security.

A future-orientated model of social security

The Council has outlined the following five headlines for a new system:—

(1) **A partial basic income, or PBI**, to which all residents and all persons coming under the social security provisions would be entitled. The PBI would be unconditional and payable on an individual basis. For persons aged 18 and over it would be equal to the difference between the national minimum for a couple and for a single householder, under existing legislation. In January 1985 this would have been equivalent to 30% of the national minimum level for a couple, or a little under 450 guilders a calendar month, equal to approximately £25 a week at that time. For old people, widows and disabled or handicapped people there would be a higher rate PBI, bringing them up to the national minimum. For children there would be a lower PBI, comparable to existing child benefit.

(2) **Reduced labour costs**. The introduction of the PBI would be coupled with the abolition of the national minimum wage. Furthermore gross wages and social security benefits would be reduced in such a way that the PBI plus the new net wage or benefit would equal the old net wage or benefit, thus the proposal has no redistributive intentions. At the same time that gross wages and benefits were reduced, the government would introduce new taxes on a scale sufficient to cover the extra costs associated with the PBI. To help ensure that labour costs were reduced as intended, a tax base other than wages and salaries would need to be selected. To this end there could be a shift away from taxes on labour to taxes such as VAT, corporation tax, import duties, motor vehicle tax, wealth tax, or extra taxes on polluting activities, scarce energy sources or raw materials.

(3) **General loss of earnings insurance (GLI)**. In addition to the PBI all employed persons would be covered against loss of earnings due to sickness, disability or unemployment, by an insurance based supplement which would top up the PBI to the level of the national minimum for a single householder. Since the PBI would be equal to the difference between the social minimum for a couple and for a single householder, a household with only one breadwinner receiving the maximum GLI benefit would under the new system still receive an income equal to the national minimum for a couple. Consequently, the present means-tested supplements for dependent partners in social insurance schemes could be eliminated. This would lead to a considerable reduction in the complexity of the social security system.

(4) **National assistance (NA).** This is a supplementary provision, or safety net, which would bring anybody with insufficient income up to the national minimum. NA would be subject to a household means test.

(5) **Voluntary loss of earnings insurance (VLI)**. This could be taken out by any individual, to insure against loss of earnings above the national minimum.

The case for the new model

Experience has shown that there can be prolonged periods during which there is not enough employment to go round for everyone who wants to work. The solution put forward amounts to a partial uncoupling of the link between employment and income. However, the introduction of a full basic income, equal to the national minimum, would go too far. It would create the risk of an excessive fall in labour supply, due to reduced work incentives, and this in turn would jeopardise the economic base on which the financing of a basic income depends. This risk is particularly great in the Netherlands, because of the high level of the national minimum. (See Table).

The introduction of a guaranteed PBI would make it possible to abolish the statutory minimum wage. Since the number of incomes per household can vary considerably, a minimum wage has ceased to be an effective instrument of ensuring that households receive incomes sufficient to meet basic needs. Moreover, because the PBI would establish a uniform income base, the greater pay differentials that might result from abolition of the minimum wage would lead to smaller differences in **net** incomes (including the PBI) that would be the case if the minimum wage were abolished under present circumstances. The Council regards the abolition of the statutory minimum wage and the introduction of the PBI as inextricably linked.

Speaking more generally it may be argued that before the Second World War the social security system in the Netherlands was limited to occupational risks. There was a fixed relationship between occupational risk and entitlement to social security benefits, from which it followed naturally that contributions should be regarded as labour costs. But this system of levies on labour was carried over into the present social security system, although it is arguable that the post World War 2 welfare state includes many risks that are not purely occupational.

Because social security is largely financed out of levies on labour, the high level of expenditure on social security has resulted in high labour costs, as well as high marginal tax rates. The relative prices for labour-intensive goods and services have risen, thereby dempening demand for these products and encouraging producers to substitute capital for labour. Moreover the same high labour costs are encouraging people to seek ways of by-passing the formal economy. In certain sectors, particularly where labour-intensive work is involved, there has also been a shift away from the formal to the informal economy, where neither tax nor social security contributions are paid, thus diminishing the revenues from which social security benefits are financed.

The proposed methods of financing the PBI would lead to a shift in the structure of corporate costs. For labour-intensive firms, the net effect of the reduction in labour costs and the increase in other taxes would be favourable, while for capital-investive firms it would not. Labour-intensive firms would therefore be in a position to lower their prices in relation to the pre-PBI situation, while capital-intensive firms would find their costs pushed up. This shift in relative prices would affect corporate sales. Depending on the price elasticity of the different goods and services and on corporate pricing policy, the sales of labour-intensive goods and services would increase, while the sales of capital intensive products could decline. If labour-intensive industries were to create more jobs in response to their increased sales than were lost in the capital-intensive industries, because of the decline in sales there, the net result would be an overall increase in employment.

Reactions to the proposal

The Council's report was published in the summer of 1985. At first it received hardly any support at all. Advocates of full basic incomes, minor fractions in the unions and in the socialist party, reject the **partial** basic income, because the rate proposed is below subsistence level. The unions are very opposed to abolition of the statutory minimum. The women's liberation movement regards paid work for all women as a necessary condi-

Comparison of Netherlands national minimum and UK supplementary benefit with proposed partial basic incomes, January 1985

Family type	**Existing systems**						**Proposed systems**			
	NL national minimum			UK SB minimum			NL proposed PBI		UK: BIG I (a)	
	fl	% ape	£ eq	fl eq	% ape	£	fl	£ eq	fl eq	£
Single adult	1085	33%	269	493	19%	122	450	111	376	93*
Married couple	1550	47%	384	796	31%	197	900	223	752	186*

ape = average production worker earnings, UK estimate at £148 a week/£641 a month in Jan 85
NL estimate at £190 a week/£852 a month in Jan 85
Updated estimates from *Tax/Benefit Position of Production Workers 1979-83,* OECD Paris 1984

eq = equivalent, using rate of exchange of £1 = fl4,04 (average exchange rate in Jan 85)

All amounts refer to *calendar months* and are rounded.

*For explanation of *BIG 1(a)* partial basic income scheme see BIRG Bulletin No.3 *Costing Basic Incomes*. The discrepancies between the BIs shown and supplementary benefit are accounted for by the following: First, the BIs run from April to April, whereas the Jan 85 SB rates shown include the Nov 84 uprating. Second, the single person's SB in the table is for a single householder, but the BI shown does not include the householder and heating elements of BIG housing benefit, which would bring total income support for people with no income of their own to slightly above SB levels.

tion for real emancipation, and argues that the PBI would have the opposite effect, that is a decline in labour market participation by women. Employers reject the partial uncoupling of the link between paid work and income, and also the redistribution of the burden of social security spending from labour-intensive to capital-intensive firms. Government considers the costs of the partial basic income to be prohibitive and also strongly opposes the proposed redistribution of the burden of social security spending.

More recently, however, the report seems to be gaining support. The Council's argument that the social and economic changes taking place demand something more fundamental than cost-cutting is winning more and more recognition. The Under-Secretary of State for Social Affairs and Employment and the Chairman of the Social Insurance Council have both said several times during the past few months that the Council's proposals require further consideration. And this summer the Advisory Council for Science Policy in the Netherlands published an advisory report setting out the areas for labour affairs research that should get increased funding in the future. One such area concerns alternatives to the present system of social security, especially those outlined in *Safeguarding Social Security.*

Jos Dekkers is a staff member of the Netherlands Scientific Council for Government Policy..

Glossary of terms:

Netherlands Scientific Council for Goverment Policy/Wetenschappelijke Raad voor het Regeringsbeleid: A "Think Tank" of the Netherlands government, responsible for providing scientifically sound information on future developments in society, for anticipating and drawing attention to major policy problems, and for outlining alternative policy options.

Advisory Council for Science Policy in the Netherlands/Raad van Advies voor het Wetenschapsbeleid: the central advisory body in the NL on governmental planning and policy-making in the fields of science and technology.

Netherlands national assistance and national minimum. This is the statutory minimum benefit level for national insurance (old age, widows, disability) and national assistance benefits. For a couple, the national minimum is the same as the net statutory minimum wage.

Partial basic income: gedeeltelijk basisinkomen (gbi).

General loss of earnings insurance: algemene inkomensdervingsverzekering (aiv).

Voluntary loss of earnings insurance: vrijwillige inkomensdervingsverzekering (viv)

References:

Safeguarding social security, Netherlands Scientific Council for Government Policy, Summary of the twenty-sixth Report to the Government, The Hague 1985. Obtainable free from: Wetenschappelijke Raad voor het Regeringsbeleid, 2 Plein 1813, P.O. Box 20004, 2500EA THE HAGUE, Netherlands.

Advisory report on labour affairs research/Advies inzahe Onderzock naar Arbeidsvraagstukken. Obtainable from: Raad van Advies voor het Wetenschapsbeleid, 42 Javastraat, 2585AP The Hague.

POVERTY AND ADEQUACY

ANNE MILLER

1. Introduction

In its constitution, BIRG defines a Basic Income as follows:

> "A Basic Income scheme would aim to guarantee to each man, woman and child the unconditional right to an independent income sufficient to meet basic living costs. Its main purpose would be the prevention of poverty, as opposed to mere poverty relief."

The purpose of this article, the first of an occasional series, is to try and find out whether economic theory can help to define and measure the problematic concepts of *poverty* and *sufficiency* (or *adequacy).* The first stage is to look at elementary demand theory and one of its models known as the *Linear Expenditure System.* The terms *poverty* and *adequacy* are then examined and related to demand theory.

In discussions about Basic incomes and other income maintenance systems, reference is frequently made to concepts that are already the subject matter of economic theory. Over the years economists have drawn increasingly fine distinctions between closely related concepts. Gradually they are building up and testing theories, defining their terms and ensuring that all assumptions are made explicit and that the argument is logical. They use these theoretical structures as vehicles for measuring economic variables, for estimating the values of certain parameters (or constants) in their models, and also a framework within which they can analyse alternative policy proposals. Even a cursory acquaintance with those parts of the economic theory relevant to Basic incomes is worthwhile, if it helps to clarify the issues and if it provides a framework for systematic analysis. The use of a common terminology is also helpful. Knowledge of both the theoretical framework and the terminology helps one to challenge the current wisdom and the professional on his or her own terms.

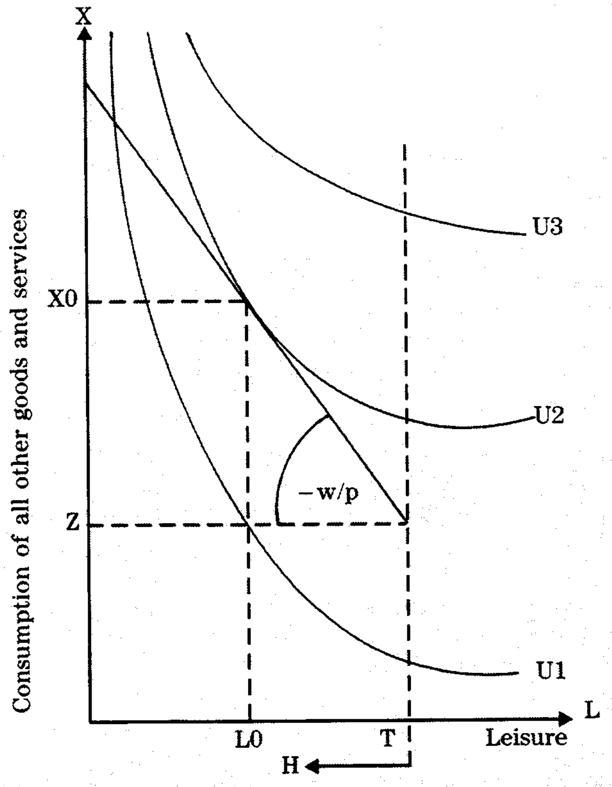
For the purposes of this paper it is assumed that the population in question is homogeneous, that is, one which has the same culture, values and needs. The problems that arise when the population is composed of different groups, with different needs and living in different circumstances, will be discussed in a later paper.

2. Demand theory

Demand theory is that part of economic theory which attempts to describe how individuals make choices between the consumption of one combination of goods and another, subject to the constraint imposed on them by their means, in this case income. A typical way of illustrating this is by the use of *indifference curves,* as in

Figure 1. For the sake of simplicity, the ideas are illustrated here using just two commodities (goods and services), but the analysis can be extended to include more commodities without difficulty.

Figure 1: Indifference curves and buget line



In **Figure 1** the horizontal axis represents leisure, L, and the vertical axis represents the "consumption of all other goods and services", denoted by X. Both are flow quantities, rather than stocks, and both refer to quantities consumed in a given time period. Leisure is an atypical good in that there is a limit, T, to the amount of leisure that can be consumed in a given time period. Thus T represents 24 hours in a day, or 7 days per week, depending on the unit of measurement of leisure. Any combination of leisure and other consumption may be expected to yield a certain amount of satisfaction or *utility* to the consumer, but different combinations of the commodities could yield the same amount of satisfaction, in which case the consumer is said to be *indifferent* between those combinations. This is represented in the diagram by the *indifference curves*, labelled U1, U2 and U3, where it is assumed that U3 provides greater satisfaction than U2, which in turn yields more satisfaction than U1. Demand theory does not recognise satisfaction as something that can be measured in units, but it does assume that each consumer can recognise whether he or she prefers one combination of goods to another, without having to say by how much.

The indifference curves illustrate the consumer's preferences, given a free choice. However, consumers are constrained by their means, or income. Full income, F, defines the consumer's endowments of the commodities concerned (in this case an endowment of time, T, and an endowment of unearned consumption, Z, which could take any positive value or could be zero), valued at current prices. Thus the price of leisure is the money wage rate, w, and the price of unearned consumption is the current general price level, p.

$$F = wT + pZ$$

This equation describes a budget line passing through the coordinates (T,Z) and having a negative slope measured by w/p (the real wage rate). Thus the consumer can convert his or her leisure time into further consumption via earned income. The amount of time spent in paid employment, H, is represented in the diagram by the distance on the horizontal axis measured from the point T in a leftwards direction, ie H = T − L. It is assumed that a consumer wishes to maximise his or her utility, and will choose that combination of leisure and consumption of all other goods (LO, XO) where the budget line is tangential to an indifference curve. Thus full income, F, is allocated to the consumption of wLO and pXO.

This is the basis of one of the main statements of demand theory, which states that the amount consumed of any commodity (L or X) is determined by own price, other prices, and income, F (or endowments, T and Z), given the tastes of the consumer (that is, the parameters which determine the shapes of, and relationships between, the indifference curves).

Figure 2: Linear expenditure system

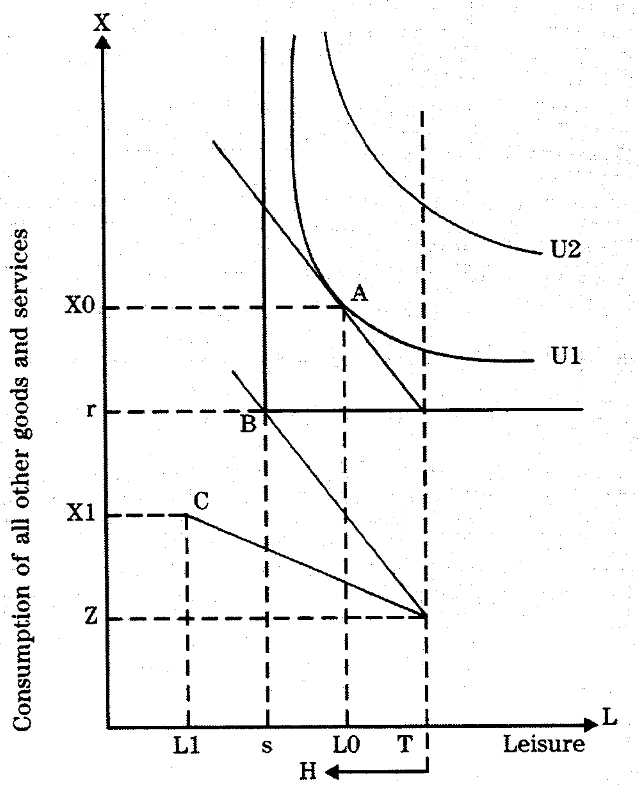


Figure 2 illustrates the indifference curves associated with a particular functional form known as the *Linear Expenditure System (LES)*, developed and used extensively in the early 1950s by Nobel prizewinner Richard Stone.[1] One of its special features is the assumption that a minimum level of consumption of any given commodity must be attained before the consumer can act as an economic agent. These consumption levels, marked

r and s in the figure, are known as *survival levels*. They are different from *minimum physical subsistence levels*, below which the consumer would start to die. Rather, they act like a pair of inner axes, and the indifference curves appear only in the top right hand quadrant.

Any consumer whose consumption falls below one or more of the survival levels might be regarded as being deprived. This depends on the elements (T,Z, w or p) comprising the consumer's means or income, and their consumption remains at (T,Z). The *survival levels* of the LES may be regarded as a measure of *basic needs*, so that s and r are measures of the consumer's basic needs for leisure and the consumption of all other goods and services respectively. This is the terminology that will be used in the rest of this paper.

Using econometric techniques and good quality data, such as that provided in the annual UK Family Expenditure Survey [2], it is possible to obtain estimates of *basic needs* for various commodities, and for the separate leisure needs of men and women.[3]

There are many conceptual and technical problems in this type of work, not least that of defining a homogeneous commodity for which the term *basic needs* is meaningful. For example the consumption of energy could be measured in thermal equivalents, but defining the amount of housing consumed is more difficult. Space per head might give some basic measure, but fails to take into account other factors that make housing such a multifaceted commodity. The LES makes other assumptions that are very restrictive, and thereby renders the accuracy of its estimation of *basic needs* questionable. However, work is currently being done to develop alternative functional forms, that would retain some of the attractive features of the LES, but would be restrictive in their other assumptions.[4]

3. Poverty and adequacy

Important though its definition of a Basic Income is in providing BIRG with a foundation for its work, it begs some difficult questions, such as the meanings of *sufficiency* and *poverty*. The concept of poverty is one that has taxed the minds of economists and others for years. Even to define poverty is difficult, let alone to measure it. Townsend refers to these problems in his great work *Poverty in the United Kingdom*.[5]

In the literature poverty is defined in three different ways (utility, income or consumption) as though each were equally good or even interchangeable, but this also begs the very question that needs to be answered. Furthermore there are conceptual problems associated with each of these measures.

It would certainly be convenient if we could measure an individual's welfare by his or her level of satisfaction or utility. But the fact that we cannot measure utility rules out this course, although some interesting work in The Netherlands by Professor Van Praag[6] is developing techniques for making interpersonal comparisons. Utility would provide a useful, single summary statistic to indicate an individual's welfare. Recent studies have tended to define poverty in terms of income, and this provides a relatively easily attainable, single summary statistic for an individual's means.

Poverty is not a zero-one concept. That is to say that a person cannot be categorised as either poverty-stricken **or** affluent. Poverty is rather a matter of degree, with relative poverty or relative affluence measured along a continuum, and with some marker or critical value as a reference point. These critical values are community — and time-dependent. Obviously the parameters for *basic needs*, r and s, in the LES could provide markers to define the dividing line between deprivation and affluence. But an element of arbitrariness creeps in, because it might be possible to choose between *basic needs* as measured in the LES and another, different set estimated from another model. The choice of model immediately introduces an element of subjectivity.

The third way to measure poverty is in terms of consumption. Consumption is multidimensional and therefore not so convenient as utilty or income for comparative purposes. Moreover because it is multidimensional it is possible to be both affluent and deprived at the same time. Although material needs are important (as fulfilled by the variable *consumption of all other goods and services*, comprising food, clothing, shelter, fuel and so forth), the extent to which our lives are deprived or enriched depends also on fulfilment of non-material needs (for self-worth, leisure and affection, to participate, to be creative and so forth). Generally speaking these non-material needs are even harder to measure quantitatively than material needs. And how to combine all these dimensions in one summary statistic, representing the degree of poverty or affluence, is an even more daunting problem.

How then can BIRG's definition of a Basic Income be interpreted in terms of the LES in **Figure 2**? The aims of providing an independent income sufficient to meet basic living costs can be interpreted in several ways, each of which has a different outcome in terms of living standards, depending on the level of Z (unearned consumption) in relation to r (basic need for consumption of goods and services). Whereas r can be determined empirically, the basic income, which determines the position of Z, involves a policy decision. Examples of the different outcomes are illustrated by points A, B and C in **Figure 2.** Point B leaves the consumer still on the margin of poverty, C is below the poverty line, whereas a more generous basic income (B1 = pr) enables the consumer to act as an economic agent. For instance in Hermione Parker's BIG schemes the full basic income payable to pensioners and the disabled is B1 = pr, whereas the partial B1 payable to all able-bodied adults is some proportion of this.

4. Conclusion

The framework for analysis provided by demand theory helps in the discussion of poverty and adequacy. It does not solve all the problems, but it does enable one to get to grips with the issues in a more systematic way.

Much more research is necessary, both theoretical and empirical, in order to provide good quality estimates of *basic needs* for goods and services and for leisure. But by itself this is not enough. Deciding on the level of the Basic Income is ultimately a political decision and a matter of judgement. With good data it can be an informed decision and its full implications can be anticipated. Lack of information (or misinformation) produces arbitrary judgments and bad decision making.

By implication the wise decision is one that errs on the side of generosity, in order to ensure the prevention of poverty.

Anne Miller is a lecturer in the Department of Economics at Heriot-Watt University, Edinburgh.

References:

1. *The measurement of consumers' expenditure and behaviour in the UK,* 1920-38, Richard Stone, Cambridge University Press 1954.
2. *Modelling the joint determination of household labour supplies and commodity demands,* Blundell, R. and Walker, I. Economic Journal, Vol 92, pp 351-64, 1982.
3. *Family Expenditure Survey*, published annually by the Department of Employment, HMSO.
4. *Multicharacter goods: an explicit extensive functional form.* Miller, A.G. Heriot-Watt University Working Paper, 1985.
5. *Poverty in the United Kingdom,* Townsend, P. Penguin, London, 1979.
6. *Individual welfare functions and consumer behaviour,* Van Praag, B.M.S, North-Holland, Amsterdam. 1968.

LETTER FROM ANDREW BROWN

An argument to shew that it is in the best interests of the best parts of this nation to eschew rash adjustments to the system of *poor relief*.

PLATO's scheme, that *sophists* can be excluded from the republic, seems the foundation of all political wisdom. Our modern sophists we call "the intelligentsia", and it is my purpose to shew, what all plain men must assent to, that schemes to reform our system of poor relief, originate only among the sophists, benefit them only, and should inspire a just contempt among men of sound judgement — who are to be found in all parties.

It is argued in favour of these schemes:

FIRST that they would shew justice to the poor.

SECOND that they would reward industry, and reproach idleness.

THIRD that they might diminish the number of clerks in Her Majesty's service, who are a great burden on this country.

FOURTH and not withstanding the third above, that they would increase employment.

It is my purpose to examine each of these heads, and to shew that under each the schemes of Mris Parker and her confederates can only be subversive of good practice and sound government.

Argument the first: that they would shew justice to the poor.

Justice we know from Aristotle to be a virtue; but we know better than the antients, who believed justice to be a virtue confined to the few. In **our** democracies each man may vote for justice, and every man does. In this sacramental vote is comprehended all the good a citizen need — or may — do. To suggest, then, that more justice could be done is grossly to libel every citizen of this country, since the imputation can only be that they have in the past voted for injustice, which idea is by definition absurd.

To this the *Tories* may add that the present disposition of rich and poor is pleasing to the Lord, and hence just, as is shown by His causing Her Majesty to choose a Tory administration, so it would be impious to meddle with it; further that if the poor men at the gate should grow more numerous than the ABC1's in their castles, then the proper remedy is the Boundaries Commission rather than any more general schemes of reform.

The *levellers* would have it that the injustice lies not in the condition of the poor, but in the existence of the rich: "When Adam delved and Eve span, who was then the gentleman?". Thus to relieve the distress of the poor it is necessary only to distress the rich sufficiently. This Mris Parker's scheme does not promise at all.

The *Whigs*, for their part — or parts — would be unhappy with any arrangement of *poor relief* which might appear too simple or insufficiently susceptible of improvement. For, if their schemes could be understood, would they be just? If justice were simple, what need of Whigs?

Argument the second: that they would reward industry and punish idleness.

This argument may be proved absurd on an analogous premise: Who among men of judgement and knowledge can deny that the present system of poor relief does not call out the utmost *ingenuity* among the working poor?

Consider this story from the rookeries of *West London*, which I retail in the thieves' cant of the region:

"*There's this geezer I know who's just signed off; and nobody in his house will talk to him any more. They say he's turned in his badge. Of course they're all signing on: what do you think? But he wants to go to America, and they won't let you in if you're unemployed. You've got to have a job for six months. Of course, he's been working for the last six years, but it's a dreadful shock to have to pay rent and taxes. What makes it worse is that his girlfriend just done the same thing.*

"*Of course it all gets back to him once he moves to America. It's dead simple really. What you do is find a bloke living here who isn't entitled to the dole. He's got no right of residence or something. So he gets the other bloke's NI number and they do a percentage split of the money. It works well for about 15 — no 25 or 30 people. More than that and it gets too much like work for the bloke who's collecting it.*

"*Otherwise what he does is simple. He just takes the NI card and the number and signs on at an office where he isn't known, and where the other bloke isn't known either. He has to be able to collect the money in person, at the office, and they don't like that, so he has to pick the right address. That's one where he can say that he's afraid the money will be stolen if they post it to him. You have to prove that it has been stolen three times, but that's no great hassle to arrange....* "

The *Tory* who contemplates this scheme can only admire the intricate knowledge of society that has gone to form it. Who are we to interfere with such a naturally growing system? Consider the details, passed down by hallowed tradition, which outwit in turn each one of the social planner's wiles, in order to deliver green crinkly specie into those hands who by their industry and ingenuity have shown themselves worthiest to receive it.

The *Whig* must admire the determination to preserve their liberties shown by the workers of this scheme, combining against the over-reaching Crown.

The *leveller* will add to this admiration a rejoicing that some at least of the taxes levied on the rich have by these routes reached the enemies of their classes (and of all good order).

Argument the third: that an administrative reorganisation might diminish the number of clerks in Her Majesty's service.

Why, the idea need only be put clearly for its full absurdity to become apparent. For who is to arrange for the redisposition of these clerks but the clerks themselves? And while it may be clearly apparent to the free-born Englishman that these creatures were better impressed into Her Majesty's Navy, or employed about the muckier bits of Her Majesty's infrastructure, it is part of the special wisdom which all such clerks acquire and require for their curious arts, to realise that any such reform would be impractical, as well as grossly damaging to the better elements of the nation.

When even the introduction of electrical engines of calculation, which can confuse in the blinking of an eye accounts that previously employed an hundred or more clerks, lead merely to the re-employment of these clerks in other offices, it must be apparent to every observer free from the canting enthusiasms of Mris Parker's disordered visionaries that the chief effect of her reforms, if ever the attempt were made to introduce them, would be to secure a many-fold increase in the number and employments of the clerks who would have to carry them out.

Added to which may be observed that Her Majesty's current administration is greatly concerned to reduce the influence of the levelling sects which dominate the combinations formed, against all principles of sound government, among the clerks who toil for Her Majesty in *Newcastle*. It is inconceivable that this administration would take measures further to inflame the grievances of those venomous drudges.

Whigs, levellers, and Tories alike would recoil from any such folly, and the loyal subject must give thanks to God that Her Majesty is in this instance so well advised by *all* the factions of State.

Argument the fourth: that they would increase employment.

The argument may now be justly considered on its merits, that Mris Parker's schemes would find employment for those sturdy paupers who seem, if My Lord of Durham is to be believed, as it is our loyal duty to believe him, to form the greater part of the population of the North.

Since we have already established that the scheme could not be introduced under any possible Ministry, this may seem carrying fairness to extremes. Yet it is worth examining the effects of the scheme, if only to show that no party nor faction in the state would profit from too great a reduction in the numbers of these poor, thus that Mris Parker's scheme is and can be nothing but fond fancy.

For the *Tories* her scheme would involve the destruction of many of those reliefs from oppressive taxation that reward the intelligent and industrious. Since these people naturally cast their votes for the Tories, it would be doubly unjust as well as injurious to the best interests of the country if a Tory Minister were to advance any measure that might disturb their comfort. Many of these best elements might be persuaded by such a measure that her Majesty were better advised by a Whig Ministry. This might yet not prove disastrous to the nation if an equal or greater number of paupers could be persuaded to abandon the levellers and instead cast their votes for the Tories. That will not happen: while the costs of Mris Parker's scheme are sure, swift and painful, its benefits are uncertain and slow in their workings.

The *Whigs*, on the other hand, do not scruple to announce that they will raise taxes already burdensome to many. Yet in the tradition of this country's moderation, they will not destroy those reliefs from taxation that sustain the propertied classes. So while their systems of poor relief offer to the better off a certain pleasing astringency of conscience, much as a glass of gin is improved by the application of bitters or perhaps quinine, they no more destroy the solid comforts of the propertied classes, as Mris Parker would have us do, than bitters or quinine diminish the sustaining qualities of gin.

As for the **levellers**, how could a party of the dispossessed acquiesce in a scheme of poor relief which would abolish the poor? Who could suppose them, mad though they be, to be quite so mad?

The above piece having been received from one Andrew Brown, of no fixed address, but presumed to be the same Brown who regularly composes for the **Spectator** *and of late has started dissertating on matters pertaining to religion for the* **Independent**, *we give it space, from Christian charity, and as warning to our readers of the forces of reaction in this nation.*

THE CASE FOR A GUARANTEED INCOME IN FRANCE

BRUNO COUDER (ATD Fourth World)

France operates a system of contributory national insurance benefits, partly earnings related and partly flat rate, but with no dependency additions. These are funded by employers' and employees' contributions. Sickness benefit is administered on a regional basis under central government legislation. Unemployment benefit is administered by regional organisations of employers and employees called the ASSEDIC Bureaux. Universal, tax-free child benefits are payable for second and subsequent children, and are administered by the family allowance funds or "caisses d'allocations familiales" (CAFs). Means-tested child benefits include the "allocation jeunes enfants", housing benefit and one parent benefit. These are funded by central government and administered by the CAFs. France has no equivalent to British supplementary benefit. "Aide sociale" is locally funded and locally operated by elected regional councils, and applies largely to families with children. There is also a national non-contributory minimum income for old people or "vieillesse minimum". French income tax takes into account family responsibilities through the "quotient familiale", taxable income being calculated according to the number of adults and children in the family. There is also a statutory minimum wage (SMIC).

In France pressures for the introduction of a guaranteed minimum income have intensified during the years, due to the increasing number of people who find themselves without resources of any kind, and to the slow response by successive governments to do anything to help them. The old myth that social security provision is constantly improving has been disproved by the reality of cuts in unemployment benefit provision alongside increasing unemployment, and benefit improvements which fail to reach those most in need.

It is important to start by emphasising that for the most disadvantaged families the first requirement is work. Work provides dignity as well as money and for most people it is a pre-condition for raising a family. It follows that no solution should be accepted that does not recognise the need for unskilled and semi-skilled workers to obtain paid work. That is not to say that the introduction of a guaranteed minimum income is not also necessary. On the contrary the return of mass unemployment makes it absolutely essential, and those who oppose it on the grounds that it would create a divided society are overlooking the fact that the division already exists. If it were not so, France would not have its under-class or sub-proletariat. And because we never bothered to establish a minimum safety net, today there are nearly 1 million unemployed people with no entitlement to any benefit and whose financial situations are often extremely precarious.

Certainly we must beware of creating a divided society. But in order to avoid it the first step should be to consult those who are already its victims. These people say very clearly: **"We want to work. But if there is no work, then we and our families have the right to live in decency."** Experience shows moreover that families cannot plan for their futures unless they have some degree of basic income security and a roof over their heads. Each one of them knows only too well that education and training are essential prerequisites if they are ever to find paid work. But in order to acquire the necessary qualifications, they need not just access to education and training but also a guaranteed income.

Current thinking on basic incomes in France

Of course there are some categories of people in France who are already able to claim a guaranteed minimum income. Old people can claim the old age minimum or *minimum vieillesse.* There are also special benefits for handicapped adults. And lone parents with children under three years of age, or with at least three children, can claim the *allocation de parent isolé.* But these provisions still leave out a number of people who need help.

The current debate on minimum incomes focuses on the following main options:—

(1) A guaranteed minimum unemployment benefit.

(2) A guaranteed minimum income for families with children.

(3) A guaranteed social assistance (*Aide Sociale*) minimum.

(1) Guaranteed minimum unemployment benefit (chômage minimum)

This is the solution favoured by the trade unions and the welfare rights groups. Since 1983 unemployment protection in France is partly a system of insurance (financed out of the social security contributions of wage and salary earners) and partly a system of assistance or *solidarité,* financed out of general taxation. The idea behind the proposal for a minimum unemployment benefit is to preserve the identity of the unemployed as workers. But it would have to be financed out of general taxation, because UNEDIC (the organisation responsible for unemployment insurance benefit) is already short of funds. Moreover the benefit amount would need to be higher than the current end of entitlement (*fin de droit)* unemployment benefit. The aim would be to pay it at the same rate as the old age minimum or the allowance for disabled adults (2,570 Frs a month for a single person in July 1986), which represents approximately two-thirds of the national minimum wage or *SMIC* (4,550 Frs a month in July 1986). Some local agencies, for instance the family allowance office in Grenoble, have already started to move in this direction. But the benefit amounts are very small.

(2) Guaranteed income for families with children

Voluntary organisations concerned for the welfare of families with children (for instance the *associations familiales)* are pressing for a guaranteed minimum income for all households with children. Children, it is argued, should not be penalised on account of the difficulties of their parents. In a sense child benefit (approximately 600 Frs a month for each child after the first) and France's many means-tested family benefits already constitute a form of guaranteed income on behalf of children. But in most cases the benefit rates are nowhere near high enough to meet the living costs of children.

The ideal solution would be a very large increase in existing family benefits. But a change of this nature, which would be very expensive, comes up against the French income tax system, with its *family quotient* system of reliefs, and the long-established principle of tax-free family benefits. Major tax reform would almost certainly be necessary and there is no prospect of this at present. That is unfortunate because the principle of a benefit for each individual child is widely supported by French people.

An alternative solution is to make a big increase in the already existing means-tested family benefits like the *complément familial.* By restricting the increases to means-tested benefits the need for tax reform would be avoided. But the entitlement ceiling for the *complément familial* is already rather high (and tending to go higher), so once again the change would be expensive. On the other hand, if the regulations were changed in order to reduce the number of families with entitlement to the *complément familial*, some French Family Associations would probably oppose the change on the grounds that family benefits were being turned into a form of social assistance.

It is true too that the introduction of such a guaranteed income would not protect families and single people without children. It would also make the parents involved dependent on the "money of their children", a situation which many already find difficult to live with. Nevertheless this proposal opens up for many very poor families a real possibility of being able to bring up their children in decent conditions. Rejection of the proposal would not be acceptable unless another solution were found for them.

(3) A Social Aid guaranteed minimum

France's nearest equivalent to British supplementary benefit is *aide sociale.* At present these funds, which are controlled by the local municipalities and departments, are all that is available for single people and families in financial distress. Moreover households where there are no children can only claim through the municipalities.

Responsibility for *aide sociale* is completely decentralised. Entitlement regulations and benefit amounts vary from one commune to another, according to the wealth of each and according to the political views of the elected officials. During the past few years the increasing number of requests for assistance have resulted in increased expenditure on *aide sociale,* but the average amount paid out per claimant has fallen almost everywhere, and in some places the fall has been substantial. Of its very nature therefore, *aide sociale* is anything but a guaranteed minimum income.

Benefit entitlement periods are usually for one, two or three months. Even if the claimant families manage to renew their rights to benefit, they can hardly be expected to build plans for the future on that sort of foundation. And in any case this sort of assistance is heavily stigmatising. The family has to "prove its poverty" and many are deterred from claiming for this reason.

All sorts of proposals have been put forward in recent years to overcome the disadvantages of *aide sociale*, and in some localities experiments have been carried out. The most famous of these was perhaps the system introduced in Besancon in 1974 and still in existence. The idea today is to introduce a national right to a guaranteed minimum income equal to two thirds of the national minimum wage or SMIC, and perhaps more for large families. The benefit would be financed by central government and would be renewable every three to four months. But it would be subject to intervention by a social worker, who would be responsible for helping the family to re-establish itself financially, either through paid work, or by applying for another more permanent form of social protection. The amount payable would be the difference between the income guarantee and the resources of the individual family, and there would be monthly controls.

Most of the proposals under discussion require the intervention of the offices of *Aide Sociale*. In theory this is an advantage, because local officials know the local people and the local problems, and should be able to respond quickly in cases of emergency. But it also has disadvantages. Decision making can be arbitrary and stigmatising. Some municipalities take active steps to discourage poor people from living in their area. And there are cases of unnecessary delays, even intimidation. There seems no reason why similar attitudes should not develop at the level of the local department, if that became the level responsible for administration of a guaranteed minimum income.

The Ministry of Social Affairs has in any case made it very clear on several occasions during 1985 that it does not favour the idea of a national guaranteed minimum. At present there is more interest in an allowance of Frs 2,000 a month (about £44 a week), administered at either municipal or departmental level, financed half by the local authorities and half by central government, and paid out in return for a commitment by the claimant to participate either in some sort of education or training, or in community work.

Proposals by ATD Fourth World

A few months ago Father Joseph Wresinski, Secretary General of the International Movement ATD Fourth World and a member of the French Social and Economic Council, was asked to be rapporteur for a report by the Social Affairs Section of the Council on *Extreme poverty and economic and social insecurity in France*. The question of a guaranteed income will be included in this report, which will be completed by early 1987. In his discussions with other members of the Council Father Joseph will concentrate on the fact that the most impoverished families, whatever their situation, still want to be considered as workers. They must have material security in order to build confidence and to make progress, and they want others to join with them in order to make their hopes a reality.

ATD (Fourth World) is an international movement founded in France in 1958 by Father Joseph Wrésinski. The letters ATD stand for "Aide à Toute Détresse". The movement concentrates on the needs and aspirations of the most disadvantaged families with children and tries to help them to become economically independent. Bruno Couder is National Delegate for the Movement in France. International headquarters is at 107 Avenue du Général Leclerc, 95480 Pierrelaye, France. The British Secretariat is at 48 Addington Square, London SE5 7LB.

THE COSTS OF WORKING

Why work expenses are important

A basic income scheme would aim to guarantee to each man, woman and child an independent income sufficient to meet basic living costs. For people in paid work those living costs include the expenses associated with earning a living. Yet most basic income costings assume that all income except the basic incomes would be subject to tax. If that were so a BI system could undermine work incentives in much the same way as the existing tax and benefit systems, because the marginal tax rate from lower paid or part-time work could be over 100%.

What are the costs of working? How much do people spend on travel to work and childcare costs? What are the opportunity costs of taking paid work outside the home, for women and for men? What are the costs of looking for work? Is it possible to devise a BI scheme that takes these costs into account, and to adjust tax liability accordingly? Is there a case for replacing the earned income tax allowance that working wives can claim under existing law with a fixed amount earned income tax credit for both men and women, irrespective of marital status? Is there perhaps also a case for allowing lone parents, or indeed all parents, to put the costs of childcare associated with paid work against their income tax? And because tax reliefs may be of little or no value to the lower paid, is there not a case for including subsidised, means-tested child care provision within any programme of income maintenance?

These are just some of the questions raised at a BIRG Seminar held last June on The Costs of Working. At that seminar we could do no more than alert participants to the importance and complexity of the issues. We publish the following, abbreviated contributions from two of our speakers in order to emphasise the importance of this often neglected dimension in debate.

CHILDMINDING COSTS

SUE OWEN

The National Childminding Association (NCMA) was formed in 1977, and now has 20,000 members, who together care for about 60,000 children, almost all of whom are left with childminders because their mothers are at work. Although the number of children in the care of registered childminders is small in relation to the total number of children whose mothers are in paid work, it is nevertheless significant and it is growing. The total number of registered childminding places of about 110,000 compares with a total of about 30,000 places provided by the local authorities for under fives in day nurseries. Moreover childminding serves a double purpose, because it provides an income for the childminder as well as enabling the mothers to go out to work.

The costs to parents

The *supplementary benefit* system allows parents working part-time to deduct their child care costs from their reckonable income for SB purposes. The new *income support* system which will replace it does not, partly, it seems, because Ministers underestimate those costs. Thus in one piece of correspondence with the NCMA on this issue the Minister, Mr John Major, cited research from the University of York showing the **average** cost of child care for single parents on supplementary benefit working part-time to be 94 pence a week. We hope he realises that his figure says absolutely nothing about child care costs, but more about the large numbers of single parents who rely on free or unrealistically cheap help with child care, or who are unable to work at all.

Most working parents in two-parent (two-wage) and single-parent families have to pay the full costs of child care. They are not eligible for a place in a council day nursery, because most of these are restricted to children seen to be "at risk". Some local authorities subvent or subsidise places with childminders, but again these places are usually reserved for children who are seen to be "at risk". Very few local authorities put single parents into that category, unless the child has already come to the notice of the social worker.

The cheaper or free forms of child care, like playgroups and education-run nursery classes and nursery schools, are generally not much help to working parents because they operate for morning or afternoon sessions only, perhaps one or two days a week.

Consequently those working parents who cannot rely on the help of a friend or relative use childminders or private day nurseries, or nannies, or some form of nanny-sharing arrangement. The last two options are generally too expensive for most working parents. On the whole people use childminders. But childminding too is becoming expensive, perhaps more expensive than many parents can easily afford. Each year the NCMA runs a membership survey. The survey can only tell us about our own members, who are perhaps a privileged group within childminding, but it is nevertheless the only national survey of its kind.

The 1985 survey showed that 97% of the childminders who replied were caring for the children of working parents. Nearly one third were caring for only one child at a time. Well over a third were taking older children after school and another 27% were taking additional school-age children during the school holidays. The amount charged by 67% of them was between 50 pence and 75 pence an hour, and the majority were working for 40 hours a week or more. The average cost is therefore roughly £25 a week for 40 hours of care and £12.50 for 20 hours of part-time care.

That is roughly in line with the Association's recommended guidelines on Pay and Conditions. Thus for 1985-86 the NCMA suggested a minimum weekly charge of

£27.00. But the average charge of £25 conceals wide variations. In Central London the charge may be £40.00, compared with much lower costs, sometimes as low as £15.00 a week, in poorer areas. Costs vary considerably by geography and by the employment situation in an area. If there is plenty of work for women, and it is relatively well paid, then childminding costs are proportionately higher. But in areas of high unemployment for women, or where women's work attracts low wages, childminding costs are normally lower. In other words childminders tend to go with the market, and to charge only what parents can afford. Consequently there can be problems in areas of mixed economy, for instance, where large numbers of professional people, who can afford higher child care costs, are moving in, but where there are still a large number of working class families who find the new charges very high. In such circumstances childminding rates can rise beyond the means of a large proportion of the population.

On the whole childminding costs have risen quite dramatically over the last ten years, and this is very much due to the fact that childminders have organised themselves together, and have come to recognise the value, status and skills connected with their work, and the importance of organisation and training. The results are higher standards as well as higher charges. The NCMA nevertheless receives many phone calls from bewildered, sometimes irate, parents who sometimes feel they are being blackmailed. The NCMA response is to point out that the care of one's children is perhaps the greatest trust that one person can give to another, and surely it deserves to be valued accordingly. Nevertheless the Association recognises that many people cannot afford to pay high fees for child care, and it has therefore campaigned long and hard for more subsidised childminding, not just for children who are seen to be at risk, but for any low waged parents, even if both parents in a family are in paid work.

With current restrictions on local authority spending, this kind of subvention may not be realistic, but it seems to us to be one of the only ways to ensure high quality child care in the private sector without discriminating against the women who provide that care.

The costs to childminders

Childminders in receipt of supplementary benefit are permitted to claim two thirds of their income from childminding as expenses. This two thirds expenses regulation dates back to 1980 and is frequently accepted as a guideline by officials in other areas of the tax and benefit systems where there are no similar statutory regulations. Yet the two third rule, like the child care expenses rule, is at risk from the new legislation.

The costs of childminding include extra heating, lighting and food. Most childminders in our annual survey were providing food as part of their services, not as an optional extra. There are also many hidden costs. Childminders are exhorted to take the children on outings, to take them shopping, on the bus, to playgroups and so forth. The NCMA recommends very strongly that parents should pay extra for extra services, particularly for playgroup or mother and toddler charges. But this is not always done. Many childminders, we found, were paying for extras out of their own pockets. They often pay for treats and outings and they often pay for babies' items like cream, lotions and disposable nappies. Strictly speaking the childminder is a self-employed person, paying her own national insurance contribution and income tax. In practice most do not earn enough to come within such brackets. But if they do, or if they earn just enough to bring them into tax, then these costs also will have to come out of their earnings.

When the Association was first established it was discovered that large numbers of childminders had never bothered to work out their weekly costs, and when they did so they found that they were out of pocket by the end of the week. That is to say they were subsidising the parents. This happens less often now, but childminding can still be a costly occupation. There are hidden costs that parents may not appreciate and that childminders may feel embarrassed to mention. The result can be rifts in the childminding relationship and the possiblity of the children being taken away. That is why the NCMA strongly recommend that a contract should be drawn up between the parent and the childminder right at the start of every arrangement.

Some childminding support schemes, such as the Groveway Project set up by the London Borough of Lambeth, have tried to overcome these problems by taking finance out of the relationship between parents and childminder altogether. The parent pays the local authority what they can afford on a sliding scale and the local authority makes this up to the childminder's wages and pays it to her themselves. Obviously there can still be difficulties, but on the whole that sort of arrangement tends to solve the problems of irritation, frustration, late payments and embarrassment which can destroy an otherwise good childminding arrangement.

Sue Owen is information officer for the National Childminding Association

JOURNEY-TO-WORK COSTS

MARTIN J. H. MOGRIDGE

In the UK, unlike some other countries, the wage or salary earner is not allowed to offset the costs of the journey to work against his or her tax. This can lead to some odd anomalies, as my wife found when she was working for the Greater London Council as a surveyor. Although her daily work consisted of a tour of inspection of sites in North London, for tax purposes it was assumed that she had to go to County Hall each day. Her journey to work from NWI to County Hall was deducted from her daily mileage, even though the journey she actually made was often in the opposite direction. Moreover, since she was not allowed to claim for the use of a car in inner London, although a car was necessary for her to do her job, and since the introduction of public transport passes meant that her net allowance claim was often zero, she was frequently out of pocket to the extent of 25-30 miles per day.

Time and money budgets

Moving from one particular anomaly to the general problem, journey to work costs have to be set in a framework of time and money budgets. Household surveys such as the National Travel Survey make it possible to measure what people do with these budgets, following a precedent set by the London Travel Surveys of 1949 and 1954.

For example, since we all have 24 hours per day to divide up into working, eating, sleeping, recreation and travelling, it is not surprising that travelling forms a roughly constant fraction of each day for the average person. Nor has this fraction changed greatly over the past several hundred years. It is just over an hour on average, but it varies across different types of persons, being generally higher for males than for females, and for the middle-aged than for the young or the old.

Money budgets, on the other hand, depend strongly on the possession of a car or cars. People without cars spend on average 3-5% of their disposable household income on travel depending on the size but not on the income of the household, whereas people with cars spend about 15%, again not varying with income. As income rises, or as there is a relative fall in car prices, higher proportions of higher income households switch their budget proportions so that they become car-owning. Possession of a car allows people in the household to travel faster, in general, and thus gives them a wider field of activity within their time constraints. The public transport expenditure proportion of the budgets of car owners typically falls to below 1% of total disposable income, except for those who live in the suburbs of a conurbation and commute by rail to the city centre. It is also worth noting that as people get richer, a rapidly increasing part of their budget is spend on air travel, mainly for holidays as yet, but increasingly also for work travel.

Thus richer workers, while not in general travelling for a longer time each day than poorer workers, tend to spend more in travelling faster and further. It follows that tax relief on the basis of journeys made would be greater for richer workers than for poorer. Conversely a flat rate tax relief would be redistributive to poorer workers.

Interactive effects of taxation and subsidies

When assessing the effects of taxation or subsidy on the transport sector, it is necessary to consider a number of complex interactions. Some examples follow.

Taxation. If petrol prices are raised by taxation, and assuming that people continue to travel as before, then they will have to offset the increase in their expenditure on petrol by a decrease in car purchase, and this will affect the motor car manufacturers. The evidence shows that travel is reduced a little by petrol price increases, and that expenditure on petrol increases by about 85% of the petrol price increase. Gradually however, as people shift to more economical cars, buying new and scrapping old, the increase in petrol prices will be more and more offset by the improved fuel-efficiency of new cars. The whole process takes about 10-15 years and we have never seen it work itself out fully, as petrol prices do not remain stable that long. The immediate effect is thus inflationary, and the long-run effect deflationary. Offsetting the initial inflationary effect by reducing vehicle excise duties, as the Liberal Party suggests, would extend car lifetimes, as cars take longer to reach values at which the ownership costs are too high for poor people — and incidentally, probably also reduce the rate of evasion of duties.

When discussing company car taxation, it is often argued that company cars form the mainstay of UK motor manufacturers, since they account for about half of the sales of new cars. Company cars are, however, much larger (by about 20%) than cars that are bought new by private households, and thus less fuel-efficient. When these company cars are sold to the private sector, after about two or three years, they force the households which buy them, for the average eight to ten years remaining lifetime of the car, to spend more on petrol than they otherwise would, and therefore to spend less on car purchase. Depending on the assumptions made about travel by such cars in private hands, and the way that manufacturers allocate overheads on production runs of cars of various efficiencies, it can be argued that this reduction in car purchase expenditure by households owning ex-company cars causes a net fall in the number of new cars sold, rather than that company cars are essential for motor manufacturers' sales. One has only to compare sales in other countries without such company support to see the force of this argument.

Expenditure. An example now from the interaction between public and private expenditure on transport. Many cities developed transport policies over the last decade where public transport fares were held down by subsidy. While this increases patronage, approximately at the rate of 3% more passengers for every 10% reduction in fares, it has a peculiar side-effect. If money budgets on transport are, in the long run, a constant proportion of total household expenditure, then the money saved by the reduction in public transport fares may well be spent on more car travel — or even the acquisition of a car. (This would apply to the community as a whole: few *individuals* will actually be at the margin of buying a car.) Whilst the logic of this is straightforward, it must be admitted that the empirical evidence in the transport area is poor, though common enough in other areas of economics, where reducing the price of an inferior good leads the higher consumption of a superior good.

There is another paradox. In cities like London, traffic speeds in the centre are much lower than in the suburbs, leading to pressure for more roads as car ownership rises. It can be shown, however, that when roads are congested journey speeds (not traffic) are on average the same for cars as for the best public transport alternative — after taking into account all access times at each end, including parking and so forth. Just the right number of people travel by car to bring the speed down to the level which the rest, travelling by train or bus, achieve. If more road capacity is built, more people shift to car until speeds are back to the same equilibrium speed, or worse. And if public transport services are reduced as a result of the loss of custom, then the average speed will be even lower than before. In congested conditions, the potentially most efficient people-mover, the public transport system, has to be improved, not the roads, which are inefficient users of space.

One final trade-off should be noted, that between journey-to-work costs and the costs of space. In large urban areas with pronounced central employment, the costs of travel to the centre cause a *rent gradient*, with space costing less per unit area the further from the centre it is. This is because the cost of space is in general determined by the marginal user, that is the one who is prepared to pay the highest price for it. If you change the relative costs of transport, you will change the rent gradient, and the spread of our cities.

It follows that taxation and subsidy policies in transport, and in particular for the journey-to-work, need to be assessed within a framework which at least attempts to take interactions of the kind noted above into account, lest a policy is set which has long-run disadvantages, especially to non-transport sectors of the economy.

Dr Mogridge is a member of the Transport Studies Group, University College, London

AT HOME AND ABROAD

FIRST INTERNATIONAL CONFERENCE ON BASIC INCOME AND FORMATION OF BIEN

In September 1986 about one hundred participants from fourteen European countries attended a three day conference at the University of Louvain-la-Neuve in Belgium. The conference was organised by Philippe van Parijs, Paul-Marie Boulanger and Philippe Defeyt of the **Collectif Charles Fourier**. The origins of this conference are themselves of interest. In 1984 the Foundation Roi Baudouin organised an essay competition on "The Future of Work". The *collectif* submitted an essay with the title *L'allocation universelle*,[1] in which they set out the implications of basic income for the nature and distribution of work. The *collectif* won the prize and it was this prize money that financed the 1986 conference.

Speakers at the plenary sessions included Philippe van Parijs, Gabriel Fragnière (Director of the European Centre for Work and Society in Maastricht), Michael Opielka (assistant to the Green Group in the German Parliament), Professor Nic Douben (University of Eindhoven and member of the Netherlands Scientific Council for Government Policy), Professor Claus Offe (University of Bielefeld), Greetje Lubbi (Voedingsbond FNV — a Dutch trade union for workers in agriculture and food) and Riccardo Petrella (Director of the EEC Commission FAST programme on Forecasting and Assessment in the fields of Science and Technology). Papers discussed at the smaller meetings covered the historical and theoretical aspects of basic income, the implications of basic income for business, employment and women, and problems of costing and implementation.

One of the striking features of the conference was the wide range of disciplines and political views represented, from academics to unemployed groups and across a wide range of the political spectrum. Another feature was the atmosphere of friendly cooperation and realism. In the final session Professor Offe advocated basic income not on utopian grounds but as a necessary and realistic response to changes that are threatening existing standards.

During the course of the conference the need to develop the debate at a European level and to improve international coordination and cooperation became increasingly apparent. It was therefore agreed to set up an international organisation to assist in arranging seminars and working groups, to organise a further international conference in two years time, to publish an international journal and news letter and to maintain a documentation centre and bibliography. This organisation will be called **BIEN**, or **Basic Income European Network**, and will be under the auspices of the European Centre for Work and Society in Maastricht.

The following people were nominated to serve on the organising committee of **BIEN** during the first two years:—

Joint Chairmen:	Professor Claus Offe (University of Bielefeld) Professor Niels Meyer (Technical University of Denmark) Peter Ashby (BIRG)
Secretary:	Walter van Trier (University of Antwerp)
Journal editor:	Hermione Parker (BIRG & London School of Economics)
Bibliography:	Guy Standing (ILO Geneva) Robert van der Veen (University of Amsterdam)
Fund raising:	Paul Marie Boulanger (Collectif Charles Fourier & ADRASS) Bart Nooteboom (Dutch Association of Small and Medium sized Businesses)
Contact with the unemployed:	Geert van Oijen (ECGURN or European Coordination Group on Unemployed Rights & New Employment)

Subject to agreement by BIRG's Research Panel, **BIRG** will affiliate to **BIEN** and the **BIRG Bulletin** will become the journal of the new organisation. Overall Bulletin policy will continue much as before, focusing mainly on the general reader yet with some items of a technical nature. But from 1987 the new Bulletin will include more articles contributed from outside the United Kingdom, and more information about events and publications relevant to basic income anywhere in Europe.

Reference:

1. *L'Allocation Universelle:* La Revue Nouvelle, Numero 4, April 1985. See **Books Received.**

BRITAIN'S SOCIAL DEMOCRATS GO FOR POVERTY RELIEF, NOT POVERTY PREVENTION

In August 1986 Britain's Social Democratic Party published its third set of proposals for reforming the tax and benefit systems, called **Merging Tax and Benefits. Attacking Poverty.**[1] Some of the proposals resemble basic income, for instance replacement of the contributions requirement for old age pensions by a residence test, and abolition of the earnings rule for pensioners. But the SDP strategy is on the whole very different.

"Our concern", says the paper, "is the relief of poverty", and the corner-stone of the proposals is a new *basic benefit*, which would be withdrawn at 70 pence from each extra £ of net income. Given that most people on basic benefit would also be paying tax at 38%, the amount left to the low income population out of each extra £ would be only 19 pence. An estimated 30% of the population would be affected in this way, and 20% of two child families would face marginal tax rates in excess of 80%. Thus the SDP strategy is **poverty relief** on a massive scale, whereas the aim of basic income is enhancement of freedom through economic independence.

Despite a dirth of figures it is clear that the SDP's increased reliance on poverty relief benefits has two main causes. First the refusal to increase child benefit (except on a limited taxable basis), and second the replacement of married man's income tax allowance (MMA) by a fixed amount tax deduction that is non-transferable between husband and wife, and does not convert into cash if one spouse has no income (or insufficient income) to set against it. Thus, using 1985-86 figures, instead of MMA at £66.44 and single person's allowance (SPA) at £42.40 a week, each person (married or single) would be allowed to deduct £15.34 (= 38% of £40.38) from their tax bill. This allowance or *tax credit* would be valueless to a non-earning spouse. Effectively therefore a single wage married couple would pay tax at 38% on all income above £40.38 a week, compared with income above £66.44 in 1985-86, and compared with a basic benefit entitlement/poverty level of £52 (excluding housing). Having taxed couples on incomes below the poverty line the SDP would then top their incomes up again by offering basic benefit, pauperising them by taking back 81 pence out of each extra £ earned.

By comparison BIRG would replace MMA with *basic incomes* (BIs), which are in effect *fully convertible* tax credits. For people with income of their own (whether married or single) the basic income is a fixed amount tax deduction, exactly like the SDP's proposed allowance against tax. But for people without income of their own BI is a much more effective weapon against poverty, because it automatically converts from a fixed amount allowance against tax into a cash benefit.

Using the SDP figures for 1985-86 but assuming a basic income system, the non-earning spouse (or anybody with no income of their own) would automatically be credited each week with £15.34 in cash. The effect is an automatic, independent buffer against poverty, and a base on which to build. The price is a higher starting rate of tax than the SDP proposes, and a more steeply progressive tax schedule for people with above average earnings. For instance with Hermione Parker's BIG 1(a) scheme, which proposes partial BIs of about £25 for adults and £15 for children, the starting rate of the new basic income tax would be 40% (cf 38% for the SDP scheme), moving up to 45% at average earnings, and with a top rate of 60% at four times average earnings. Employees' NI contribution would be abolished. Means-tested housing benefit would be retained and would push up the effective marginal tax rate at the bottom to 73% (cf SDP 81%), but because BIG 1 focuses extra BI supplements on people with low earnings potential (eg the old and the sick), very few families would need to claim housing benefit.

Although the SDP proposes independent taxation of husband and wife for income tax purposes, those unfortunate to depend on basic benefit would have their incomes aggregated. The penalties for marriage in the existing system would be aggravated because so many families would be affected.

The SDP are in difficulties because they cannot accept the concept of **individual rights**, clinging instead to nineteenth century notions of dependency, "heads of households" and "breadwinner husbands". With basic incomes each spouse would be independently entitled to a basic income and the spouse with income would be taxed more heavily than at present. The assumption built into most benefit systems that money flows evenly between individual family members as though guided by an invisible hand is very questionable.[2] A basic income recognises this and gives every citizen a modicum of financial independence.

The SDP are also in difficulties because they do not endorse the concept of the **rights of the child.** With basic incomes each child would be entitled to a basic income at about two thirds the adult rate and all other income of the child would be taxable. All the basic incomes are withdrawn through the tax system. Assuming adult PBIs of £25 a week, child PBIs of £15 a week and a tax rate of 40% of all other income, the tax break even point at which a couple with two children starts to pay **net** tax is £200, compared with £125 for a couple without children. Although a tax-free child BI implies a transfer of resources in favour of all families with children, it is not a benefit for the rich but a net tax reduction. A wealthy family with children would pay less net tax than a wealthy family without children, but would nevertheless pay far more in tax than it received in child BIs and could be required to pay more in net tax than at present. That would be up to the government of the day.

The SDP would increase child benefit to £11.50 but would make it taxable as part of the income "of the caring parent, which will normally mean the mother". Quite apart from the administrative difficulties involved in this proposal (if both parents share the role of carer) the paper does not say why a mother with four children and no income other than child benefit of £46 a week should pay tax on the amount by which her child benefit exceeded her tax-free amount of £40.38. Although it is possible to argue logically in favour of a return to taxable child benefit plus child tax relief, the idea that a mother should have to set child benefit against the tax-free amount that is supposed to keep **her** out of tax-induced poverty is insupportable.

References:

1. **Merging Tax and Benefits. Attacking Poverty.** SDP, 4 Cowley Street, London SW1.
2. **Social security, taxation and family financial arrangements.** Jan Pahl, BIRG Bulletin No. 5, Spring 1986.

BASIC INCOME INITIATIVES IN THE EUROPEAN PARLIAMENT

Committee on Social Affairs and Employment. Draft report on *Social security in the European Community (restructuring of the European Labour market)*. Rapporteur: Mr Benedikt Haerlin.[1]

In June 1986 the Green Alternative European Link (GRAEL) of the Rainbow Group completed a draft report for the Committee on Social Affairs and Employment, which is expected to form part of a major project on the restructuring of European labour markets, to be debated in the European Parliament during autumn 1986. It is hoped that the outcome may be a study of basic income by EEC Commission.

The concept of basic incomes was included by GRAEL after a hearing of experts on the subject of basic income in the European Parliament building in Brussels on 5th June. Title of the hearing was *The Guaranteed Basic Income and the Future of Social Security* and papers presented by speakers from Belgium, Germany, Netherlands and the UK focused first on the political debate and then on problems of implementation. Hermione Parker, representing BIRG, spoke about the cost of a guaranteed basic income.

In his draft report Benedikt Haerlin estimates that more than a fifth of the European Community's citizens are now living in poverty, defined as less than 50% of average income. The crisis in employment has produced a "new poverty", and those worst affected are young people, older women with limited contribution records, divorcees, widows and migrant workers. Additionally the report draws attention to changing social structures throughout the Community and the trend towards a "singles society", which leads to the question: "Is not the best solution to base the social security system on the individual?". The motion for a resolution ends by proposing that "...all Community citizens should be guaranteed a basic income independent of work, which would be enough tc ensure a life free from material needs and social marginalization", and calls on the Commission to draw up a plan for implementation of a guaranteed basic income.

Motion for a resolution, tabled by Mr O'Malley, on a *European basic income system*.[2]

This motion is of particular significance because Mr O'Malley sits with the Christian Democrats. The interest in basic income will carry more weight if it comes from more than one political grouping. Mr O'Malley's resolution starts by drawing attention to increasing unemployment, the disincentive effects of uncoordinated tax and welfare systems and the accelerating rate of technological change. He then calls on the Commission "to investigate the medium or long-term possibility of developing a 'basic income' system throughout the Community". Of special interest are the suggestions that a basic income system "through boosting the personal incomes of marginal producers, could eventually serve as an alternative, more effective mechanism for fulfilling some of the social aims of the common agricultural policy", and might also help to develop a "popular sense of European identity".

References:

1. EUROPEAN PARLIAMENT *COMMITTEE ON SOCIAL AFFAIRS AND EMPLOYMENT* WG(VS1)4130E PE 106.223/A. 17 June 1986.
2. European Communities, European Parliament *WORKING DOCUMENTS*. 29 August 1986, B SERIES, DOCUMENT B 2-711/86. PE 108.321.

VIEWPOINT

SERVICE CREDITS: A NEW CURRENCY

EDGAR S. CAHN

Bridging the gap between people and social needs

In both the United States and the United Kingdom, we confront the paradox of vast unmet social needs — and large numbers of people who have been put on the scrap heap. The free market does not seem able to absorb the people — or to address the social needs. Meanwhile the public sector is strapped for funds and there is a strong political resistance to public expenditure increases on the scale required. Even if the political climate were to change, it is doubtful if any acceptable increase in taxation would generate the revenues needed to tackle the backlog of social needs. Moreover large segments of the population, the elderly, the technologically unemployed, minority youth, and many lone parents, would still remain outside the labour force.

Meanwhile two separate debates move forward, passing each other like ships in the night, one about growth and the other about distribution. The debate about economic growth — how to increase the size of the pie — always seems to involve shifts from labour intensive to capital intensive industries. Its first concern is to ensure a high enough rate of return on investment to attract the capital necessary to be able to compete efficiently in international markets. The redistribution debate is restricted to how "best" to divide a limited pie. As a result, the participants are locked in a zero sum game — for anyone to win, someone must lose.

In that kind of contest, it is those at the bottom of the economic ladder who lose. This paper describes a strategy that seeks to bridge the two debates: to enlarge the pie in a way that alters distributive mechanisms, by creating a new currency that brings people and social needs together. The new currency is called *service credits*. It is issued locally, is tax exempt, and is guaranteed by local government. Service credits have been created by law in three jurisdictions in the United States (District of Columbia, Florida and Missouri). Legislation is pending in seven other state legislatures. And the idea is now receiving intensive consideration by certain local authorities in the United Kingdom.

Not a substitute for basic incomes, nor a cover for workfare

Two prefatory statements are necessary. First, the service credit strategy is NOT a substitute for basic entitlements, but a supplement. It cannot address basic needs. At best it can only fill out the system of basic support, because "services" are no substitute for food, clothing and shelter. Thus a service credit strategy could supplement basic incomes, enabling people to convert their personal time into purchasing power by helping to address social needs, but it could never replace basic incomes or reduce the need for them. As we shall see service credits are a restricted currency, not a general purpose currency like money. Certain beneficial consequences flow from those restrictions, consequences that money could not accomplish. Conversely, the restrictions only work if people have access to some sufficient amount of general purpose currency to meet their basic needs. Otherwise earning service credits is likely to seem a luxury.

Second, the system must be clearly distinguished from any form of 'workfare' — a strategy now increasingly popular in the United States, whereby the poor are required to work for any public assistance they receive. Since 1981, under federal law, each state legislature is empowered to introduce compulsory workfare programmes for families on welfare, and pilot projects are at present being carried out. Some of these schemes are more humane than others, but generally speaking advocates of workfare seem to find no inconsistency in saying that the laws of human nature cease to operate when it comes to the poor. The rest of us (particularly the rich) supposedly respond best to incentives, but the poor, we are told, can respond only to sanctions. Those who advocate workfare customarily begin by identifying the black male as the "cause" of "the problem", and then somehow conclude that the solution is to put the black female out of work. The only thing the programme seems certain to produce is a generation of workfare orphans, warehoused by mothers who are often ill-equipped for either parenting or self-sufficiency.

The service credit strategy is the antithesis of workfare. Unlike workfare, it is voluntary, it relies on incentives rather than sanctions, it is not means-tested and it is designed as a supplement to basic entitlements, not a substitute. Service credits seeks to reward altruism, to nurture the family, to promote neighbourliness and to build up community ties. These are radically different goals to those of workfare, where the principal objective appears to be the provision of cheap labour for MacDonalds.

The real wealth of a society is its people

What is this new currency? How does it work? What might it do? What effects might it have?

The basic concept is simple: purchasing power, earned by producing service, is expended to buy services produced by others. In the United States the first application involved older people earning service credits by providing respite care and homemaker care for the frail elderly. Later, if those earning service credits need help, they can spend their credits to purchase respite care or homemaker care for themselves, or for someone in their family. The state guarantees that the credits can be redeemed for one hour of similar service.

Although initial applications of the concept focussed on services for the frail elderly, its implications are much broader. People earning service credits can provide educational services, day care, home repair services, transport and leisure activity services. Service credits can be earned by one person for use by another: children, grandchildren, cousins can earn them and give them as gifts to help keep an older relative at home, living independently. In the District of Columbia, service credit legislation permits members of a church, union, or charitable organisation to pool their credits, so that any member in need can draw upon the pool for services. Nor does the use of service credits have to be deferred for future use. They can be used immediately. An intergenerational exchange might involve older persons earning service credits providing pre-school day care and spending the credits to purchase transport provided by the parents in the evenings or at weekends. Or credits earned tutoring students could be used to purchase help with shopping, light housecleaning, running errands and handyman services.

The system has elements of a United States blood bank ("give now, use later"), a barter system ("my services for your services"), and an insurance system ("let's pool our risks"). It combines elements of altruism and self-interest, volunteer activity and employment, private market mechanisms and public sector intervention.

The insight behind the proposal is that the real wealth of a society is its people, and the time they are prepared to devote to meeting the needs of others, in order to meet their own needs. We tie our hands unnecessarily when we limit our thinking to people in the labour market — what they produce and what taxes they can pay. The service credits proposal attempts to address social needs by creating a new medium of exchange, that can convert presently unused personal time into a marketable asset, and that can generate real purchasing power for those outside the labour market, as well as those inside.

Effects of the new currency

Service credits differ from money in at least four ways:

(1) They are not all-purpose. They can only be earned by doing certain things for certain groups of people, and they can only be spent to purchase a limited range of services.

(2) Service credits lack conventional pricing mechanisms. One hour of service earns one credit and one credit buys one hour of service. Everyone's time is assigned equal value.

(3) They are an electronic currency which requires records to be kept showing who earns the credit, who spends it and who receives the service.

(4) They are a public, tax exempt currency, guaranteed by local government.

Each of these four characteristics produces a separate consequence:—
The restricted nature of the currency means that it buys services — not overheads, administrative costs or support staff. Moreover because service credits only buy services, they cannot be diverted to other institutional and organisational priorities. That makes them potentially more efficient in quantity and quality of service generated and in increasing the productivity of core administrative staff. Service credits can thus become **a catalyst for change**, reversing the traditional hierarchy in allocation of resources between service providers and administrators. No longer will first call be the prerogative of the administrators.

The absence of conventional pricing mechanisms has a different consequence. Payment in service credits differs from payment in money because part of the compensation is expressly understood to come from the non-monetary, psychological, altruistic, or **intrinsic reward** associated with helping others. The public nature of the currency and its tax exempt status recognise and legitimate this "praiseworthiness", but do not purport to compensate it. Payment in service credits says by implication: your contribution in helping others cannot and should not be reduced to mere market value. Intrinsic rewards become a kind of obligatory fringe benefit, if earning service credits is analysed in economists' terms as an exchange transaction.

The bookkeeping and information system driven by the service credit currency is more efficient in identifying supply and demand than either the market system or the public sector. It approaches the efficiency of the family or the tightly knit community as an information system — something we have lost in an age of increasing impersonalisation, where strangers deal with strangers.

The public, tax-exempt features of the currency reduce its opportunity costs at government level and at individual level. From the policy maker's point of view, service credits do not compete with defence, or education, or health or transport. Nothing has to be "traded off" in order to generate the services paid for with service credits. The same is true for individuals. We tend to regard leisure time as a renewable resource, so that the opportunity costs are perceived to be low. They are lowest of all for those groups with the least opportunity to earn money in the labour market: the unemployed, the elderly and others. It "feels" relatively costless to earn a credit, particularly when what we get in return is not subject to taxes or to devaluation from inflation. Even when services from the government are theoretically available, service credits become a form of "time shifting", a way of being able to arrange one's life without having schedules imposed by relatives or social service bureaucracies. And to the extent that such services are uncertain, or limited, or require waiting periods, the exchange of one hour of one's time for an hour of similar labour in the future, without deductions for administrative costs, overheads, profits, taxes or inflation, will (depending on individual circumstances) prove competitive with the market.

A dynamic of hope

The cumulative result of each of these separate effects is greater than the sum of the parts. I call it the dynamic of hope, a dynamic that comes when one removes the barriers to aspirations imposed by the present market-bounded thinking about social justice and human potential. This new feeling of hope stems from many factors. It comes from the opportunity to be "redefined" as a producer, a person capable of contributing rather than merely a supplicant, able only to consume what others produce. It comes from the fact that no one loses status from earning a service credit, performing a task that they might find demeaning to perform at the going wage. It comes from the empowerment that results from the creation of a kind of "guaranteed" market for one's time, particularly for those individuals who cannot market their time at present. It comes from the increased sense of self-sufficiency and security that service credit earnings provide. And it comes from the reinforcement of our best impulses: to give, to share and to help. In an economy that seems only to value the accumulation and consumption of material wealth, those are the impulses that get suppressed.

Problem No 1: how to implement the guarantee?

Public officials are often justifiably concerned about the potential liability created by the government guarantee. In the United States strategies have been worked out which enable local government to honour the guarantee without incurring increased expenditure, for instance:

(1) Organisations agree to set up a reserve corps of volunteers on standby, in return for securing first services to their members who have not had the chance to earn service credits.

(2) Contractors and grantees with local government set up volunteer reserves in return for being awarded extra points in competitive bidding, or being permitted to use such reserves to meet matching requirements.

(3) Employee incentive programmes such as preferred holiday selection and rotation, flexitime scheduling, more generous carry-over provisions for sick leave and vacation leave can induce public employees to join a standby reserve.

(4) Preferential access to discretionary benefits, such as student housing or low-interest educational loans, could recruit a reserve corps of students to honour the guarantee.

Problem No. 2: might service credits become a substitute for statutory services?

Avoiding the substitution of voluntary services for statutory services is a political problem and it can occur with or without service credits. At present, interest groups are locked into a zero sum game where all fight for larger portions of a fixed pie. The losers are the weak and those who are perceived as not contributing. With service credits the pie is no longer fixed. Strategically service credits offer a "win-win" game, because those now regarded as a "burden" can elect to add to the pie and to become part of the solution. In the United States representatives of the elderly who were concerned that service credits would lead to fewer statutory services have concluded that the gain is worth the risk, because if their constituency is earning service credits they acquire both economic and ethical bargaining leverage.

At present the choice is between being treated as a supplicant or being part of a constituency demonstrably addressing public needs on a scale that for the first time is directly quantifiable. A currency that nurtures and rewards our impulses to give, to contribute, to help and to develop makes economic, political and moral sense.

Edgar Cahn is Professor of Law and Senior Research Fellow at the Center on Ageing, Florida International University and originator of the idea of ***Service Credits****. During the spring and summer of 1986 he spent one term as a Distinguished Visitor at the London School of Economics. This article amplifies a talk given by Professor Cahn at a BIRG seminar in May 1986 on The Work Ethic.*

BOOKS RECEIVED

L'Allocation Universelle. La Revue Nouvelle, Rue des Moucherons 3/5, 1000 Bruxelles, Belgium. Number 4/April 1985. Price 250 Belgian francs.

Report of the Royal Commission on the Economic Union and Development prospects for Canada (The Macdonald Report), 1985. Recommends introduction of a *universally available income guarantee* for all Canadians. Summary available from: The Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Ontario K1A OS9.

Pensions: A Plan for the Future. Raymond Nottage and Gerald Rhodes, Anglo German Foundation 1986. £4.95. Recommends a *citizen's pension* at a higher rate than current basic state pension, and phasing out of State Earnings Related Pension and private pension tax reliefs.

Drawing the line: on defining the poverty threshold. Meghnad Desai in **Excluding the Poor** Ed Peter Golding, Child Poverty Action Group 1986. £2.95.

Service Credits: A New Currency for the Welfare State. Edgar Cahn, with commentaries by Nicholas Barr and Michael Reddin, Discussion Paper No. 8, ST ICERD, London School of Economics, 10 Portugal Street, London WC2A 2HD.

Merging Tax and Benefits: Attacking Poverty. SDP, 4 Cowley Street, London SW1.

The Living Economy: A New Economics in the Making. Ed Paul Eakins. Routledge & Kegan Paul 1986. £8.95.

Unemployment and Labour Market Flexibility: the United Kingdom. Guy Standing, ILO Geneva, 1986.

Beveridge Revisited: new foundations for tomorrow's welfare. Stephen Davies, Centre for Policy Studies, 8 Wilfred Street, London SW1. 1986. £4.20.

Future employment and technological change. Donald Leach & Howard Wagstaff, Kogan Page 1986. £9.95.

BASIC INCOME RESEARCH GROUP

Please fill in the form below and return to:

Chris Hall, Secretary,
Basic Income Research Group,
26 Bedford Square,
London WC1

All cheques should be made payable to the National Council for Voluntary Organisations

I wish to subscribe to the Basic Income Research Group Bulletin	
Name (individuals)	
Organisation	
Address	
Telephone No	
Annual subscription rates *(Please tick whichever is applicable)* ☐ Individual £10 ☐ Institution £15 ☐ Unwaged £5	
Signature	Date

Please send ______ copy/ies of BIRG Bulletin No. ______
Name
Organisation
Address
I enclose £1.75/£3.00+50 pence post & packing (£1.00 postage outside UK)
Signature

BIRG BULLETIN BACK NUMBERS

The first two editions of the BIRG Bulletin were in tabloid form. The following, in the current A4 style, are still available from BIRG, 26 Bedford Square, London WC1.

Bulletin No 3, Spring 1985, price £1.75

- *VIEWPOINT: A new deal for all:* Keith Roberts
- *Costing basic incomes:* Hermione Parker
- *Going, going ... gone: the vanishing right of young people to supplementary benefit:* Douglas Smith

Bulletin No 4, Autumn 1985, price £1.75

- *Out of touch: The Fowler reforms of social security:* Robert Morley
- *The debate about costings:* Hermione Parker
- *Basic income and young people:* BIRG Youth Group
- *Exploitation and basic incomes:* Bill Jordan
- *VIEWPOINT: A two-tier basic income and a national minimum wage:* Robin Smail

Bulletin No 5, Spring 1986 price £3.00

- *Social security, taxation and family financial arrangements:* Jan Pahl
- *Basic incomes: some practical considerations:* Philip Vince
- *Public support for families with children: a study in British politics:* Sir John Walley
- *Fowler's reform of social security: facts and figures:* Hermione Parker
- *Labour surplus, flexibility and security:* Guy Standing
- *Cash and caring:* R.A.B. Leaper
- *VIEWPOINT: Realistic radicalism:* Malcolm Torry

BIRG SEMINARS

The following seminar will take place from 2.00 to 5.00 pm in the Adams Room at NCVO, 43 Bedford Square:—

Family Budgets: How much income do different families need to meet their "basic living costs"? Friday 5th December, 1986.

During 1987 seminars will take place from 2.00 to 5.00 pm in Room R420, ST ICERD, London School of Economics, 10 Portugal Street, London WC2A 2HD. On arrival at 10 Portugal Street (Lionel Robbins Building), take the lift to the fourth floor and follow the ST ICERD signs.

Rights and responsibilities: How can traditional values be adjusted to take account of contemporary requirements? Friday 8th May, 1987.

Gainers and losers: What would be the redistributive effects on basic income and what might be the implications? Friday 26th June, 1987.

Basic incomes and housing: Could reform of tax and benefits along basic income lines help people to obtain the shelter they need at prices they can afford? Friday 23rd October, 1987.

NATIONAL CONFERENCE ON BASIC INCOMES SATURDAY 4th APRIL 1987

The purpose of this one day conference is to enable BIRG to report back the progress made since NCVO sponsored BIRG in 1984. Invitations and further information will be sent to NCVO member organisations and BIRG subscribers early in 1987.

Meanwhile be sure and mark the date in your diary now.