

REFLECTIONS ON BORRIE AND BIEN

CITIZEN'S INCOME

BULLETIN 19

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‘*It would be unwise, however, to rule out a move towards Citizen's Income in future: if it turns out to be the case that earnings simply cannot provide a stable income for a growing proportion of people, then the notion of some guaranteed income outside the labour market could become increasingly attractive..***’**

Report of the British Labour Party's
Commission on Social Justice, 1994

GUARANTEED MINIMUM
INCOME IN BRAZIL

MEGHNAD DESAI ON BORRIE

EVERY CITIZEN A RENTIER

SUSAN RAVEN TALKS TO
TONY ATKINSON AND
PENELOPE LEACH

KEN MAYHEW STILL THINKS
BI WOULD PROMOTE
ECONOMIC EFFICIENCY

WHY A £20 CI IS BETTER THAN
LOWERING INCOME TAX TO 20%

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Editorial

One year ago, in an earlier Editorial, we warned that unless the opposition parties move fast Britain's welfare state will be replaced by a new version of the Poor Law. 'Time', we said, 'is not on the side of those who dither. Within the establishment influential voices are saying that the 'poor' don't matter, because economic success depends on middle to high earners. If the opposition parties want to undo the damage done by fifteen years of propaganda against universal benefits, they have to get their act together fast.'

Instead, what has happened? On the Government side, there have been continuing cuts in social security benefits, further rent increases and further tax increases at the bottom of the income distribution. On the Opposition benches, Labour and the Liberal Democrats seem determined to avoid any policy proposal which could be reported as requiring a tax increase, especially a tax increase 'targeted' on high incomes. Last September, at their annual Party conference, the Liberal Democrats recanted on Citizen's Income (CI) after sixteen years in favour, and replaced it with unspecified *ad hoc* policy. For CI advocates a tiny ray of hope in an otherwise dismal year is to be found in the advice by Labour's Commission on Social Justice 'not to rule out a move towards Citizen's Income in future' (pp 263-4). They may not have liked Citizen's Income, their analysis of it was weak, but they were nevertheless careful to keep it on a back burner.

Certainly Citizen's Income is no panacea. In a situation as grave as the present one, with increasing insecurity of jobs, homes and family life, panaceas do not exist. What makes Citizen's Income different from Lilley's New Poor Law and Borrie's New Beveridge is that CI alone is truly forward-looking. The problem is that too few people know about it and it is easily misconstrued. More articles like Ian Aitken's contribution to *New Statesman & Society* last November (see Excerpts from the Press) are urgently needed, before a public consensus can be created upon which politicians of any political party are able to build. This is what the Liberals and Liberal Democrats never managed to do, with the result that after sixteen years of commitment to CI, even their own membership did not understand it and some had not even heard of it.

Citizen's Income would do three things and it would do them concurrently. First, by removing all earnings rules and most means tests, it would start the slow but necessary process of lifting the lower paid and low-income pensioners off means-tested benefits, thereby increasing financial incentives to work and to save, reducing wage pressures and helping to promote sustainable economic growth.

Second, by replacing income tax allowances (which are useless to people without the money to set against them) with the fixed-value CIs, it would redistribute the wealth created by modern technologies more equitably between rich and poor, without requiring unacceptably high rates of income tax.

Third, by giving people greater choice between paid and unpaid work (almost nobody chooses to do nothing at all), it would strengthen family and community life, encourage further education and training, and leave more paid jobs available for those who genuinely want them.

Over the years many different CI proposals have been put forward, but in Britain those that have attracted most attention are the Tax Credit proposals of Sir Edward Heath's government in 1972, and the Basic Income (BI) proposals developed since the early 1980s. Unlike other types of Citizen's Income (of which there are many), BI would be financed by its own hypothecated income tax or BI contribution. Conceptually it is therefore close to national insurance. In good times you put in more than you get. In bad times you are a net beneficiary.

The difference is that with BI the basis of entitlement becomes legal residence instead of labour-market participation. That is what makes it revolutionary, that is what makes it more family friendly than other reform options currently on offer, and that is also what makes it controversial. To generations reared in the belief that work means paid work and unpaid work ('women's work') has no economic value, such a change is hard to swallow. It's purpose, however, is not to entice women out of the labour market, but to give people more choice.

Once fully phased in, the BIs would replace most existing social security benefits, all existing personal income tax allowances and most income tax reliefs (for mortgages, private pensions etc). Every legal resident would receive a BI and pay tax on all (or almost all) their other income. Pensioners would receive age-related supplements, according to their length of residence in the UK. The present, costly jumble of social security regulations would go, releasing almost £4,500 million for the BIs.

To win electoral support for BIs at levels sufficient to replace all existing benefits, it would nevertheless be necessary to start small and increase the BIs gradually. While the Government's promised 20% standard rate of income tax will redistribute income upwards, a BI financed through a progressive income tax would redistribute downwards. Hermione Parker's and Holly Sutherland's article *Why a £20 CI is better than income tax at 20%* (pages 15-18) shows that even quite small BIs of £20 a week for adults and £15.65 for children would redistribute worthwhile but politically acceptable amounts from rich to poor.

This Editorial would be incomplete without a mention of the BIEN Congress, hosted by Citizen's Income Trust at Goldsmiths College, London last September (see *Home and Abroad*). BIEN stands for *Basic Income European Network*. It was established in September 1986, when one hundred participants from fourteen European countries attended a three-day conference at the University of Louvain-la-Neuve, Belgium. That conference was organised by Philippe Van Parijs, Paul-Marie Boulanger and Philippe Defeyt of the *Collectif Charles Fourier*. In 1984 they had won a prize from the Fondation Roi Baudouin for an essay with the title *L'allocation universelle (Citizen's Income)*. The *Collectif* used their prize money to finance the conference. Before it ended, one hundred participants had agreed to set up an international organisation to promote Basic Income (in this context the terms Citizen's Income and Basic Income mean the same thing). In addition to publishing a regular newsletter, every second year BIEN arranges an international conference. At last September's conference, Senator Suplicy of Brazil suggested that the acronym *Basic Income European Network* be changed to *Basic Income Earth Network*. It could happen!

Finally, we would like to pay tribute to the very generous donations received during the past two years from the Nigel Vinson Charitable Trust, whose director Lord Vinson of Roddam Dene has been keenly interested in our work in developing the CI concept.

Director's view Opportunities scuppered ... hijacked ... missed ...

Richard Clements

Gradually the debate about Citizen's Income is hotting up. As Director of the Citizen's Income Trust, Richard Clements spends much of his time at conferences or in private consultation with an ever-growing number of 'experts' and 'non-experts' who are dissatisfied with Britain's welfare state. His comments will be a regular feature of future CI Bulletins.

Opportunity scuppered

At their annual party conference in Brighton last September, the Liberal Democrats decided to dump Citizen's Income (CI) as party policy. They first adopted it in 1978 (see Philip Vince in *At Home and Abroad*). Now they intend to take on board a new taxation and benefits policy which will rid them of this supposed encumbrance. Conference delegates who spoke in favour of this change were determined to label CI as an impractical scheme dreamt up by woolly-minded thinkers. It was, in the words of Sir William Goodhart, a "Utopian" scheme which should be "sent packing back to Utopia, where it came from".

Some readers may find this description of CI strange. They may remember the exchange of letters between our Editor and Sir William in Bulletin No. 18, published two months before the Liberal Democrat conference. Although Sir William made it clear that he wanted his party to drop the whole proposal, partial basic income (BI) was discussed in measured terms. At the conference, however, it appeared as if Sir William had forgotten that discussion. Those Liberal Democrats who wanted a 70 per cent basic rate of tax to fund a full basic income "should have their heads examined", he said.

More interesting still, Sir William appeared to have forgotten the terms of the Liberal Democrats' reaffirmation of CI in 1990. For the policy adopted then specifically ruled out a full BI because of the unacceptably high rate of tax required, but argued that "the introduction of a Citizen's Income system, even at a level less than adequate for subsistence, carries with it substantial advantages."

The majority of those who spoke in the debate certainly did not agree with Sir William, but this majority did not show up in the final vote. Baroness Seear urged the conference not to abandon the commitment to CI. "We need to have a small income to start off with, which goes to every single person, man and woman, and cannot be taken away by anybody," she said. A starting point, she suggested, could be around £15 for adults and somewhat less for children. Action is urgently needed to end the *poverty trap*, whereby a lone mother with two children can earn £170 a week and be only £20 a week better than if she were on the dole. Baroness Seear added that it

was “backward looking” to argue that means-tested benefits had to be relied on for ever. Studies by the London School of Economics and others had shown that a partial CI scheme could be revenue neutral.

When the vote was taken it was clear that a substantial majority of the delegates were against CI. However, because of the way the debate had been organised, it was impossible to tell whether the issue they were voting on concerned a full or partial CI. The debate was perhaps best summed up by Hilary Leighton who said, with some exasperation: “I don’t think, as a parliamentary candidate, that I can get anyone to vote for me by saying we will make some small and confusing changes to the existing unfair system.”

Some of those on the losing side of the debate seemed to be saying that while the vote was lost the argument was by no means over. Certainly it may be transferred to a different field: to the Dahrendorf *Commission on Wealth Creation and Social Cohesion*, for instance, which is supposed to be recommending tax and benefit changes to Paddy Ashdown, the Liberal Democrat leader, in 1995. Lord Dahrendorf, of course, is deeply committed to CI. In 1991, in an interview with Susan Raven reported in Bulletin No. 13, he said that [he] “felt so strongly about Basic Income as an entitlement of citizenship that he would accept any political coalition to see it on to the statute book. It must not be a political football.” As the saying goes: watch this space!

Opportunity hijacked

Early in 1994 it was reported that the Chancellor of the Exchequer was studying BI as a possible alternative to the existing tax and social security systems. However, last November’s Budget showed that radical solutions are no longer on the agenda. Instead, the Treasury mandarins have again won the day, and the piecemeal approach will continue.

At the Conservative Party conference in Bournemouth, Peter Lilley, Secretary of State for Social Security, concentrated on two examples of it. The first is the Job Seeker’s Allowance (JSA), the second is the quaintly named Back to Work Bonus (BWB). JSA is unemployment benefit by a different name, with different conditions attached, while BWB is an attempt to overcome the unemployment trap. In essence it is designed to enable unemployed people who work part-time to build up a capital lump sum which will be transferred to them tax-free when they enter full-time work.

How the BWB will succeed in practice is difficult to judge. The interesting point is the slow and grudging acceptance of the principle that unemployed people need to be allowed to keep more of their benefit when they move back into employment. Why, someone might have asked the Secretary of State, did he not pursue the logic of his argument? Why not move to a system which gives the unemployed a small but stable income which they can use for further training or education to help them move back into better paid jobs?

Opportunity missed

It was very much “watch this space” at the Labour Party annual conference as well. Although Tony Blair, the newly-elected Labour leader, had a good deal to say about reforming the welfare state, there was no policy commitment. We were told to await the report of the

Social Justice Commission set up by the late John Smith and chaired by Sir Gordon Borrie. But even if there were no specific policy commitments from Tony Blair, his speech to the conference did show that new thinking was on the way. Labour, he said, wanted to get away from the “dependency culture” and create a system which helped individuals to help themselves. No mention of CI, but the groundwork for it was beginning to be established.

Small wonder therefore, when the report of the Commission on Social Justice was published, that there was a general feeling of an opportunity missed. For the report contained neither the intellectual firepower of a New Beveridge, nor the ‘meat’ with which to overcome the problems of the welfare state. Instead, it raised more questions than it brought answers. Having come up with a sensible and searching analysis of the major changes which have taken place in our society since Beveridge, it lacked a single new idea. And for those readers who think this sounds like sour grapes, because our solution was not afforded the rigorous examination it deserved, let me quote from Lord Young of Dartington, a distinguished social reformer who played an important part in establishing the programme of legislation which set up the welfare state after 1945:

Gordon Borrie claims his Report represents a revolution in Beveridge’s welfare state. But what is the great idea behind Borrie? The great idea is Beveridge. The Commission is proposing to end means tests and the poverty traps they generate, by relying on National Insurance, as proposed by Beveridge fifty years ago ... Borrie, in the name of a revolution, which isn’t, rejects the really revolutionary idea of a Citizen’s Income, or rather hovers over it, leaving us with a modest version of it, ‘if it could be afforded’. Michael Young, The Guardian, 25 October, 1994.

In a sense Lord Young is being too critical. For there is one paragraph in the Commission’s Report which is more promising:

It would be unwise, however, to rule out a move towards Citizen’s Income in future; if it turns out to be the case that earnings simply cannot provide a stable income for a growing proportion of people then the notion of some guaranteed income, outside the labour market, could become increasingly attractive ... Work incentives might matter less and those who happened to be in employment, knowing that they probably would not remain so throughout their ‘working’ lives, might be more willing to finance an unconditional payment. Our measures would not preclude a move to Citizen’s Income in the future. Report of the Commission on Social Justice, Vintage, 1994, pp 263-4.

And it is to the future that Lord Young looks: “I hope Tony Blair will look again at Citizen’s Income before rejecting it. That would be a revolution, and an advance on Beveridge, rather than a retuning of the old scheme, now too tattered”.

Well, we will wait and see. The year 1994 opened with splendid promise of reviews of taxes and benefits by all the major United Kingdom political parties. By the end of the year they had not delivered very much. Next year, with luck, the rhetoric will stop and they will start to adopt effective policies.

The case for CI is not going to go away.

Guaranteed minimum income in Brazil?

Eduardo Matarazzo Suplicy

The article that follows is based on a paper presented by Senator Eduardo Suplicy of the Brazilian Senate, to the Fifth Biennial Congress of the Basic Income European Network (BIEN), held in London last September. As the host organisation Citizen's Income Trust were delighted to welcome so distinguished a delegate and to learn about the implications of CI for Brazil. In 1994, Brazil's Gross Domestic Product came to US \$450,000 million. Shared between its 150 million inhabitants, this produces an average annual income of US \$3,000 (roughly £2,000) per person. Yet income distribution in Brazil is one of the most unequal in the world. About 40 million of its citizens aged 25 or over have less than US \$155 (roughly £100) a year. And an estimated 17 million have no income at all. In his address to the BIEN congress, Senator Suplicy argued the case for radical reform. However, whilst recognising the attractions of a universal Citizen's Income, he also stressed its unsuitability at this stage for a country like Brazil, with its high birth rate and large informal economy.

Last August, Brazil's main television news channel showed pictures of thousands of Brazilians in the north-eastern city of Teotônio Vilela, waiting to receive baskets of basic foodstuffs. Teotônio Vilela is in the state of Alagoas and the goods were being distributed by the Food Security Council, an organisation set up by the Federal Government in 1993 to combat poverty and starvation. Since then basic foodstuffs have been distributed in more than one thousand Brazilian cities, mainly in the north-east.

Are food baskets a proper and sufficient response to the problem of extreme poverty? During the 1990 campaign for the election of the Governor of Alagoas, many accusations were made against the then President, Fernando Collor de Mello, and his wife, on the grounds that they were using her position as President of the Brazilian Assistance Legion to distribute foodstuffs to supporters of their preferred candidates. Today the Federal Government is using the army to prevent political capital being made out of a humanitarian initiative. Yet the distribution of foodstuffs and other government assistance programmes could be replaced by a more efficient and dignified programme, namely the right to a guaranteed minimum income for every adult citizen. This strategy would be particularly relevant to Brazil, which is a world leader in income inequality. In 1994, the World Bank Annual Report showed that only Botswana, in Africa, has a more unequal distribution of income than Brazil. Also, the United Nations have recently warned Brazil, South Africa, Nigeria and Egypt that they will face social upheaval unless they tackle the problems of acute poverty and inequality.

Some of Brazil's current problems are undoubtedly the result of hyper-inflation. During the first quarter of 1994, prices rose by between 40 and 48 per cent *per month*. Then, as part of its price-stabilisation plan (the *Real Plan*) the Federal Government introduced a new currency, the *Real* dollar, and simultaneously cancelled almost every kind of monthly indexation, including wages. By July 1994 the monthly rate of inflation had fallen to about 6 per cent, resulting in rising optimism about the Plan's success. There are, however, many reasons why Brazilians need to be sceptical about the long-term prospects for price stability, economic growth and a more equitable distribution of income. The purpose of the *Real Plan* has never been income redistribution. As in the 1970s, when the Brazilian economy was growing very fast, Government ministers are postponing the problem of poverty to another day.

The case for a guaranteed minimum income (GMI)

It is not my aim here to discuss Brazil's stabilisation plan in detail, but to identify what I consider to be one of its main failures. In Brazil, the problems of income inequality and extreme poverty cannot be postponed any longer. Instead the government should apply the same energy to these problems as it did to price stabilisation. I have been trying to convince my colleagues at the National Congress and also in the Executive that the proper instrument would be a Guaranteed Minimum Income Programme (GMIP), using a negative income tax (NIT): every person aged 25 years or over whose monthly income was below R\$ 150.00 (approximately US\$ 165.00) would have the right to receive 30% of the difference between R\$150 and his or her level of income.

According to the availability of funds and the experience of the programme, the Government would be allowed to increase that rate to 50%. The Government would also be able to introduce the plan gradually: during the first year, those aged 60 years or over would have a right to the GMI; in the second year, those aged 55 or more; and so on, until the eighth year when everyone aged 25 or more would be entitled. Later, with the development of the economy, younger people too could be included. The programme would be financed out of Federal resources, mostly by replacing programmes that are less efficient in alleviating poverty, and by increased taxation.

Already a draft law

This is the essence of the Draft Law that I put to the Brazilian Senate in April 1991. After an effort to convince, one by one, all the 81 senators,¹ the Draft Law was approved on December 16, 1991, with three abstentions and no vote against it. Since then, the Draft Law has remained in the Chamber of Deputies, waiting to be put to the vote. It has already received a favourable report by the rapporteur to the Finance Committee, Deputy Germano Rigotto. Of course, it will be more difficult to get it passed by the second house of the National Congress, particularly without any modification, because then the President will either have to sanction it and put it into effect, or veto it. In order to create the conditions necessary for its approval, the Government itself must first be convinced that it is feasible.

Since 1991, many articles and opinions, by economists and others across a wide political spectrum, have been published in the press, most of them favourably inclined to the GMIP. Last April, the Ministers of Planning and of Finance decided that the six ministries with seats in the Food Security Council should study the proposal in greater detail. Their studies are still in progress. Some point out the pros and cons, on balance with a favourable bias, while others draw attention to particular problems, for instance how best to control declarations of income from applicants (particularly in the informal sector which accounts for 40% of the Brazilian economy), and how to finance the GMIP, which could cost 3-5% of Brazil's Gross Domestic Product.

Help for children?

Many suggestions have been put forward. José Márcio Camargo, for example, thought it important to relate the GMIP to better educational opportunities for children.² The Brazilian Geographic and Statistical Institute has shown that of the 65 million people who are economically active in Brazil, 14 million are children aged between 10 and 13 years. Some do not attend school because their parents do not have enough money to support them. Camargo's idea is to guarantee an income of (say) 70 dollars a month to families (not individuals) with children, provided they present proof that their children aged 7 to 14 are attending state schools. The amount of the guarantee would be the same lump sum per family,

no matter its size, in order to prevent the programme from encouraging population growth. In this form the minimum income would address one of the causes of the present vicious circle of poverty, i.e. the fact that deprived families cannot guarantee even a basic education for their children.

In Western Europe most countries guarantee a non means-tested (or basic) income for every child until they have completed their basic education. At the University of Frankfurt, one Professor suggested that similar arrangements in Brazil (from 0-17 years of age) would avoid the problems of means testing and income declarations. This is an interesting suggestion, but it would be unlikely to win approval in Brazil, because it would be considered an incentive for population growth.

The disadvantage of restricting the guaranteed income to families with children aged 7-14 years and attending school is that it would limit the opportunities of families with children under 7 years of age. Take, for example, the typical case of a single mother with three children under school age, living in a slum and surviving from selling peanuts or washing clothes. Why shouldn't she have the same right to a minimum income of US \$70 per month as her neighbour with school-age children? One option is to provide the minimum income to all those whose income is below a certain level, and require those with children aged 7-14 years to prove that they are attending school. This requirement of course adds to the administrative costs.



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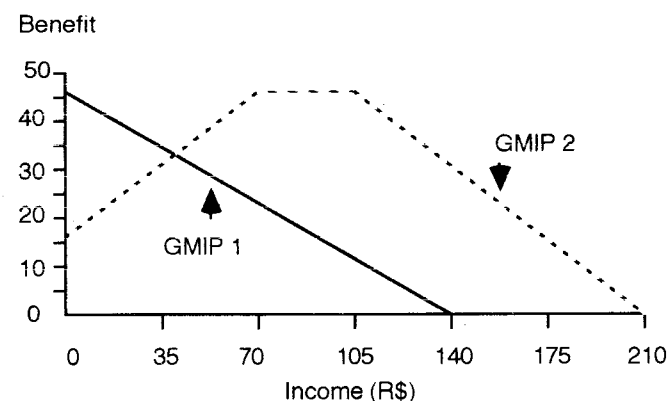
Basic Income or Minimum Income?

Another suggestion, along the lines of the universal basic income, came from Luiz Guilherme Schymura de Oliveira.³ A means-tested or minimum income would, he said, encourage employees and employers to avoid formal contracts of employment. Employees would prefer to declare that they earned no income, so as to get the maximum of 30% or 50% of the guaranteed amount, and meanwhile work on the side; while employers would prefer to avoid the social security and other payments required by Brazilian law. It would therefore be better, he argued, to avoid all the administrative problems connected with income and earnings declarations, and simply guarantee US \$20 a month to every Brazilian aged 25 years or more.

Paying for it

Of Brazil's 150 million inhabitants, 70 million are aged 25 or over and of these about 40 million have less than R\$ 140 a year, and are therefore potential beneficiaries of the GMIP in the form approved by the Senate. We can call that version GMIP Mark 1. Assuming that the negative income tax rate is 30% and the average benefit per person is around US\$ 30 per month, then total annual expenditure for the programme would be nearly US\$ 14,400 million. Another proposal, which we can call GMIP Mark 2, involves a combination of the GMIP with the earned-income tax credit introduced in the United States in 1975, and significantly amplified from 1984 onwards. Under this scheme individuals aged 25 years or over with zero income would have the right to receive R\$ 17.50 a month. Those with monthly incomes between zero and R\$ 70.00 would get R\$ 17.50 plus 35% of their own income. From R\$ 70.00 to R\$ 105.00 they would have the right to a maximum of R\$ 42.00. From R\$ 105.00 to R\$ 210.00 they would have the right to the maximum of R\$ 42.00, less 40% of any additional income above R\$ 105.00. In this way the GMIP is phased out by the time people's 'own income' equals R\$ 210.00.

Under this proposal there would no incentive for those with a monthly income of less than R\$ 105.00 (which is about one-and-a-half times Brazil's statutory minimum wage) to under-declare their income. Once the experiment had begun, adjustments to the amounts payable could be made, taking into account the economic situation of the day. The graph illustrates the two alternative programmes.



A world-wide Citizen's Income?

I am convinced that in order to build a civilised society, taking into account the values of self-interest as well as of solidarity and humanity,⁴ we need to guarantee a minimum income to all citizens in all nations, and we also need to establish some sort of negative income tax system between nations. In view of the tremendous disparity in wealth and in incomes in Brazil, which is the result not just of the last three decades, but of events over the past four centuries, including three centuries of slavery, I think it would be best to start by restricting the guaranteed income to those who are the most impoverished, and to do so along the lines of the GMIP already approved by the Senate, or according to the alternative shown in my graph. But, in the long-term, the GMIP would be a step in the direction of an unconditional basic or citizen's income for every Brazilian citizen.

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Notes and references

- 1 All the relevant debates are published in Suplicy, Eduardo Matarazzo, *Guaranteed Minimum Income Programme*, Brasília, Federal Senate, 1992. See also: Suplicy, E.M., and Cury, Samir, *The Guaranteed Minimum Income as a proposal to remove poverty in Brazil*, University of Tennessee, July 1993.
- 2 Camargo, José Marcio, *Poverty and the Guaranteed Minimum Income Programme*, in Suplicy, E.M., *Guaranteed Minimum Income Programme* (op cit); The Poor, São Paulo, Folha de São Paulo News, 1993.
- 3 At the Guaranteed Minimum Income Programmes Congress, held at the Economic Applied Research Institute, Rio de Janeiro, August 15, 1994.
- 4 As described by Paul and Greg Davidson in *Economics for a Civilised Society*, W.W. Norton & Co, 1988.

Borrie is no Beveridge: Citizen's Income NOW!

Meghnad Desai

To advocates of Citizen's Income (CI) the pages devoted to it in the recently published Report of the British Labour Party's Commission on Social Justice¹ were deeply disappointing, not because CI was rejected (for the time being at any rate), but because the analysis of it was so superficial. In explaining his own concern, Professor Lord Desai speaks for many others.

The Commission on Social Justice appointed by the late John Smith has now reported. I must admit I had my doubts at its very inception. If Beveridge could do it single-handed, I asked myself, why do we need a large committee? In the event, the committee structure — which always leads to compromise — compounded the compulsion to be cautious. It is a curious fact that think tanks on the Right get away with outrageous statements which are afterwards adopted by the Conservative Party (and the Republican Party in the USA) when the time seems ripe, while think tanks on the Left spend all their time being fearfully respectable and bend over backwards to avoid shocking. The Borrie Commission, with help from the Institute for Public Policy Research, has internalised the constraints that the Labour Party manifesto writers are going to face, with the result that they have watered everything down before the Party has any chance to do so. I was prepared for disappointment, and my premonition was right.

Key questions ignored

The fundamental problem faced by any welfare state is how to manage a transfer of resources across the life cycle (consumption smoothing) and also find a feasible and incentive-friendly way of transferring resources within generations, from the working 'rich' to the working 'poor'. If there is a life-time employment prospect, with only occasional bouts of unemployment, then the Beveridge principle of social insurance is adequate, at least for working men. But the task of financing longer or repeated spells of unemployment, as well as claims from those who cannot work (for whatever reason), is proving too burdensome for the Beveridge welfare state. This experience is not restricted to the UK; it has become a fact of life in most developed capitalist countries.

One reason for it, acknowledged by the Borrie Commission, is the transformation of the global economy. The rapidity of technical progress, the mobility of portfolio capital as well as direct fixed capital, and the possibilities for sourcing and sub-contracting around the world (thanks to information networks) have meant that in order to survive in the tradeable goods and services sector (where there is competition from imports) there

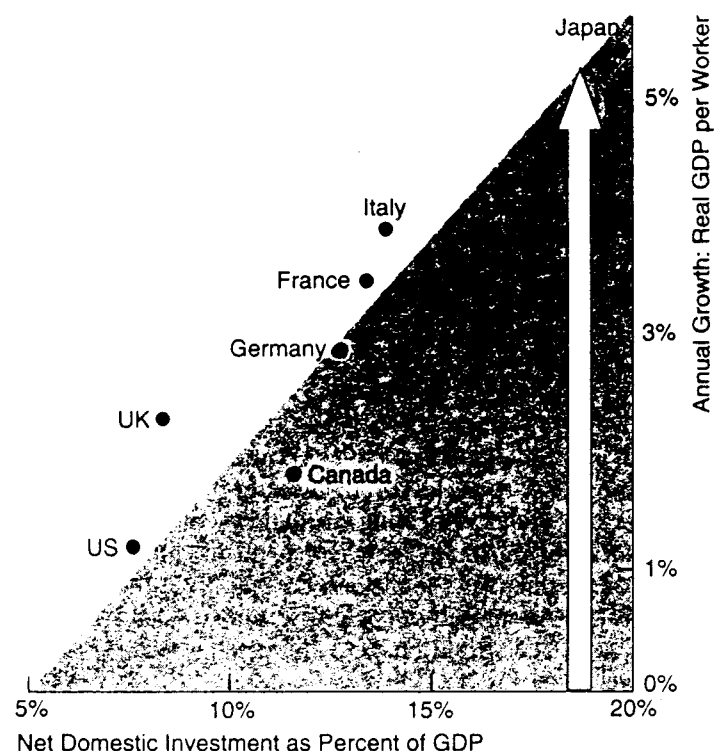
has to be fast growth of productivity. Consequently, wealth creation no longer leads to job creation. Job creation has to be addressed *as a separate exercise and requires an explicit distributive mechanism*. (I have written about this in *New Statesman and Society*.²)

To get unemployment down, jobs have to be created *in areas of the economy that are sheltered from foreign competition* — jobs which either result in saleable goods and services (haircuts, retail sales, restaurants) or are financed by the State from taxation. Either way requires transfers from people in productive, highly paid jobs to people working in the non-tradeable sector and in low-productivity jobs or jobs with slowly-rising productivity. This can happen in two ways at least. One would be by the prices of non-tradeable goods rising in relation to tradeable goods — your plumber, your char, your hairdresser, all charging the earth. But in the public sector there are also many non-tradeable goods and services which are free at the point of use (although the present government is shifting the boundaries all the time). We pay council tax or taxes in general to pay for those services. Jobs in those sectors therefore depend on tax policy and on incomes policy, the latter because the jobs in non-tradeable sectors are such that there is no way of measuring their productivity or using market criteria to determine rates of remuneration.

Faulty economic analysis

These are key questions, which the Commission does not take on. It is, however, compelled to take an optimistic view on the possibility of job creation and manages to tangle itself into contradiction in so doing. Thus, while it would like to be critical of the economic performance of the Conservative Government, it includes a graph the

The link between investment and productivity



note: line of shaded area shows fitted statistical relationship

Source: *New York Review of Books*, 7 April 1994

only source for which is cited as the *New York Review of Books*, 7 April 1994. The graph (on page 100 of the Report and reproduced here) is called *The link between investment and productivity*, and it plots the annual growth rate of real Gross Domestic Product (GDP) per worker against net domestic investment as a ratio of GDP. No time period is stated over which the relationship is fitted. The main message of the graph is not, however, the one the Commission would like us to have, i.e. that the UK invests too little. A glance at the graph tells the rather different story that the UK is much more efficient than any other country in getting more growth out of investment, indeed double the rate of growth predicted in the graph.

The Commission could not possibly have studied its own graph carefully. Nor does it seem to have noticed the rather devastating consequences of a statement it makes on page 162: *In this country, when the economy grew by 25% between 1983 and 1990 (an average of 3.4% per year), employment grew by more than 2 million.* Now of course the average growth rate is not 3.4%, but more like 2.8%, compounded as it should be. But apart from that, given its earlier criticism of slow growth, how does the Commission accommodate this startling fact? If it is true that the UK economy managed an annual average growth rate of 2.8% over eight years (an above-trend performance) and if two million jobs were created, should not the Commission have gone into details of this episode? Put the two calculations together and you might write a very optimistic report: less than 10% of GDP as net investment gives the UK 2.5 per cent growth in output per worker. Since the UK workforce grows very little, that would also be the overall growth of income. If so, we can expect two million new jobs to be created every eight years. Where is the problem, or are the data flawed? It is the mark of the Commission's work that no serious calculations are done on this question at any point of time. Is there a serious employment problem over the next ten to fifteen years or not? If there is, how does the Commission reconcile its graphs with that view? If not, why is there any problem with the welfare state?

Lost opportunity

The point is that any facile optimism on the employment front is not justified. The prospect has to be faced that even with growth at 2% to 3%, the UK economy will not be able to get unemployment down below three million in real numbers and two million in the official statistics. More than that, the whole nature of work across the life cycle needs to alter, and will alter. While the Commission is aware of the changing nature of work, it has no radical proposal to help people adapt to that change. One such proposal is of course Citizen's Income (CI). The Commission had before it cogent evidence from James Meade on this topic and had obtained from printed sources my own proposal for Basic Income. They do not comment on Meade's proposal at all and what they say about my proposal is inadequate.³

On an earlier occasion, I had advocated a \$50 per week adult CI, and in order to counter the bogey of high tax rates required to finance it I had proposed that unemployment benefit, pensions etc be replaced by the CI, that many of the currently available income tax allowances (costing around \$60,000 million at that time)

be removed, and that the zero rate of VAT be abolished.⁴ This allowed the CI to be financed without any addition to the basic rate of income tax. I had put forward this proposal to spark discussion, but had not done fine fiscal calculations. In my opinion, starting from my extreme proposal it should be possible to produce a viable scheme. Instead, the Commission draws the following conclusion, without explaining the details of the scheme:

These measures could pay for an adult Citizen's Income of £50 a week without changing the existing income tax rates. The problem with this approach is the distributional effect: over half the people in the poorest tenth of the population would be worse off, many of them becoming taxpayers for the first time, while many better off people would gain (p 263).

The losses at the lower deciles are explained by abolition of the zero rate of VAT. The interesting thing is that if one were to experiment by raising the VAT rate on non-zero rated goods (or introducing a higher rate of VAT on luxuries), one would see significant variations.

If the Commission had wished to pursue the CI concept they could have come up with a much more carefully worked proposal, or several of them. Instead they have lost a very good chance of doing so.

Tackle unemployment by cutting the link between incomes and work

The problem of living with a large proportion of the labour force unemployed will not be wished away. It requires greatly increased investment in training and education, in research and development and in new machinery. It therefore implies severe restraint on consumption (public and/or private) in order to divert money into investment. We can do this either by restraining public expenditure (the Lilley-Portillo strategy) or by curbing private consumption. In my opinion it would be better for the citizens of this country, rich and poor, waged and unwaged, if a proper CI were created. This would preserve a share for public consumption, reduce poverty and allow for greater flexibility in labour markets.

The most important argument for a Citizen's Income is that it would make much involuntary employment unnecessary, by breaking the link between income and active participation in the labour market (employed or unemployed).

This is the vision of the future that should have been worked on by the Commission. Pity it wasn't.

Meghnad Desai is Professor of Economics at the London School of Economics and a Labour peer.

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Every citizen a rentier

**Dominic Hobson and
Alan Duncan**

*It is widely believed that modern Conservatives are indifferent to the plight of the poor. This essay, which advocates a national minimum income on which individuals can build through hard work and voluntary savings, shows how untrue this is. The authors draw on a rich tradition of English individualism to show that the welfare state can be transformed from a curmudgeonly matriarch into an endowment for liberty, which enables the unique talents of every individual to flourish. The argument is condensed from their forthcoming book, **Saturn's Children: How the State Devours Liberty, Prosperity and Virtue**, to be published by Sinclair-Stevenson in June 1995.*

Support for a Citizen's Income (CI) is not the exclusive preserve of the collectivists. On the flyleaf of his great essay *On Liberty*,¹ John Stuart Mill reproduced the following passage from Wilhelm von Humboldt's *Sphere and Duties of Government*:

The grand, leading principle, towards which every argument unfolded in these pages directly converges, is the absolute and essential importance of human development in its richest diversity.²

This is the liberal ideal: the living by each individual human being of a free, spontaneous, original and virtuous life, shaped by his or her own values and experiences, and unconstrained by obedience to the dull dictates of public law or conventional opinion. There is no greater enemy of it than poverty. Poverty is destructive of liberty, diminishes choice and narrows the scope of virtue. It is a demoralising and debilitating condition, which makes it difficult if not impossible to realise the liberal ideal of a full, free and virtuous life.

That is why collectivists argue that a large measure of material equality is an indispensable condition for the realisation of freedom. Despite the best efforts of egalitarian thinkers to develop a 'positive' conception of liberty, the idea is a contradiction in terms. A large and unpredictable measure of inequality is also the one feature of a successful capitalist economy which cannot be eradicated without sacrificing the prosperity it creates. Although people can be too poor to enjoy their liberty — and to someone on the breadline liberty will mean less than getting something to eat — to be free is not to be unacquainted with poverty. That is to confuse two entirely different values. Prince Charles, for example, is a wealthy man, but the range of choices he can freely make is heavily restricted. "Poverty," as Keith Joseph and Jonathan Sumption memorably put it, "is not unfreedom."³ To be truly free is to be free to starve.

Equality and welfare are therefore entirely different propositions. But in political economy, as opposed to political philosophy, the choice is not so stark. The essential question in the field of welfare reform is not whether or not there should be a national minimum standard of living, but how it can best be organised with the least destructive effects on liberty, property and prosperity.

The present welfare state is destructive of all three. First, it takes no account of human diversity and individuality. Its clients are confronted not by a recognisably human charitable institution, but by an impersonal and anonymous bureaucracy. Its officials are guided not by personal knowledge of the poor and the sick, but by statistics showing where poverty, sickness or unemployment is going up or going down. Numbers, not people, are the currency of the conventional welfare state. Hidden from the view of the minister and the bureaucrat — behind the dry, computer-generated statistics — are the individual stories of suffering and of joy which the telescopic philanthropy of the welfare state cannot possibly see.

"Man's trick is always to put forward numbers," observed Kierkegaard, "so that one can hide in them." Social security claimants, filling in endless forms and tagged as much by numbers as by names, know this best of all. They are forced to deal with several different bureaucracies, some local and some national, and to negotiate a bewildering maze of universal and means-tested benefits, which vary widely according to personal and family circumstances.

Privacy destroyed at great cost to the taxpayer

The establishment by bureaucracy of the precise nature of personal and family circumstances necessitates a humiliating inquisition. The reasons for the loss of work; the scale of personal savings; the nature of personal injuries; the number of dependents; the level of mortgage payments or rent; and a host of other personal and financial details must be extracted and analysed by state officials before one or more of 26 different benefits **may** be paid. In the Department of Social Security alone, almost 99,000 staff — organised in seven separate bureaucracies, at an estimated cost in 1994-95 of around \$4.5 billion or \$45,000 per bureaucrat⁴ — are engaged in sifting information about a clientele which averages 46 million people at any one time. It is not surprising that the system fails to prevent, or even alleviate, poverty. In many individual cases, it actually makes it worse. The withdrawal of means-tested benefits as income rises means that some people in work are not better off and may even be worse off as they earn more. For some of the unemployed loss of benefits can mean it is not worth taking a job or a training course. People frightened of losing their jobs have no incentive to save against that eventuality, for fear it will prejudice their claim for benefits. It is no wonder that housing and social security officers are frequently attacked by disgruntled claimants, seeking to reassert some crude measure of control over their own lives.

A universal personal endowment

Welfare does not have to be a state hand-out, grudgingly dispensed by faceless bureaucrats to angry, trapped and humiliated people in desperate need. Instead, the state could pay every adult citizen a cash sum of the same size, irrespective of their personal circumstances. A Citizen's Income of this kind would be tantamount to a universal personal endowment, equivalent to the inheritance or trust funds of the rich or the imputed rental income of the owner-occupier. As Samuel Brittan has written:

The clue to legitimising some Basic Income Guarantee is to see it not as a handout, but as a property right. What is or is not a property right depends on custom, attitudes and psychology, as well as law . . . It is therefore unfortunate that the subject is usually treated purely as an aspect of social security reform . . . It would be just as valid to see the Basic Income aspect as an inalienable part of the return on the national capital . . . Basic Income would be the equivalent of an inherited, modest competence available in the middle and lower, as well as upper, reaches of the income scale . . . The only thing wrong with unearned income is that too few have it.⁵

One of the many fallacies of socialism was that private property, far from enabling the individual to realise himself in the world, alienated him from it by reducing him to a means and not an end. A Citizen's Income, conceived as an income-producing asset which confers on its owner at least a part of the means to realise his individuality, is not at all at odds with the liberal ideal of the individual as author of his own life and sole proprietor of the value he adds to his own human capital.

Increased incentives

The attractions of a Citizen's Income to impoverished writers, poets, musicians, artists, actors and students is obvious. But it can equally be seen as the indispensable measure of security which encourages production-line workers to take the risk of self-employment, or the redundant miner to retrain as a computer programmer. It is true that another of the possibilities it creates is pauperism. Some people undoubtedly will choose to opt out of economic life, to live on the subsistence offered by a Citizen's Income. But in most cases the feckless or idle are already dependent on the taxpayers, and no free or even humane society would prefer to see them either utterly destitute or coerced into State-organised make-work schemes instead. Provided marginal tax rates were properly adjusted, everyone would be better off with a job than without one, even if some people chose to do nothing. A standard, universal Citizen's Income would at last enable the welfare system to meet the objectives set by Beveridge in his 1942 blueprint for the Welfare state:

The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.⁶

Freedom from interventionism

A CI also matches the realities of the modern market economy. Twenty years ago wages and salaries accounted for well over three-quarters of personal income, but today income from employment or self-employment accounts for only two-thirds of personal incomes. The balance comes from rents, dividends and interest on capital or property (8%), private pensions or annuities (11%), and social security or other grants (15%).⁷ People are shifting from salaried employment into self-employment and retirement (or semi-retirement), job changes are frequent and many people are doing part-time or lowly-paid work. With CI, ideally the old distinctions between the employed, the self-employed, the unemployed, the sick and the retired will start to disappear. In this way a CI will not only alleviate poverty and make the labour market work better, it will also oblige the state to give up its pointless and degrading campaign to harass the work-shy and stigmatise the pauperised. It will allow people to choose to do a lot, a little or nothing at all. By making every citizen a rentier, it will reinforce liberty and property and make a substantial contribution to the withering away of the collectivist, paternalistic and interventionist State.

*Dominic Hobson was born in Southern Rhodesia and graduated from Cambridge in 1980. After three years at the Conservative Research Department, he worked for nearly five years at a merchant bank. Since 1988 he has worked for himself. His first book, **The Pride of Lucifer**, was published in 1990.*

*Alan Duncan has been Conservative Member of Parliament for Rutland and Melton since 1992. He is a member of the Social Security Select Committee and in 1993 published **An End to Illusions** (Demos), a critique of economic management under Mrs Thatcher.*

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Interviews

Susan Raven talks to two members of the Borrie Commission

In addition to its Chairman Sir Gordon Borrie QC, the Labour Party's Commission on Social Justice had fifteen members. Soon after the Commission's Report was published, two of them spoke to Susan Raven.

PROFESSOR A.B. ATKINSON FBA

It is important to realise that the Commission did not set out to provide a blueprint which could be enacted in the next Parliament. Its time horizon was longer and its concern was to devise a strategy within which there could be various options. Not surprisingly, different members of the Commission had different views about how the strategy should be implemented

Pensions

Second-tier pensions are a good example. The Commission was agreed that everyone should have a properly regulated second pension, alongside the basic state pension. This would require all employed and self-employed people to save towards it; those who employed them would also contribute; and Government would pay towards the second pensions of those who, for various reasons, were not in paid work. The Commission came up with two options as to how this strategy could be achieved: first, through an improved SERPS (State Earnings Related Pension Scheme); second, through a new, funded National Savings Pension Scheme. Some of us, myself included, favoured the former, while others favoured the latter.

For existing pensioners, two possible solutions were put forward, both of which the Commission rejected. The first is the present Government's answer — relying on means-tested Income Support (social assistance). This solution is ineffective, in view of the problem of incomplete take-up. It is also economically damaging since it creates a savings trap, discouraging people from saving on their own account. The second solution not adopted was that of a substantial increase in the basic state pension. However much Jack Jones would like it, the Commission judged that it would not fly politically.

We therefore looked for alternatives. The one we recommended — a minimum pension guarantee — has already been used in Sweden and proposed in this country, for example by the Independent Pensions Research Group. We believe that this can be designed so as to target help on pensioners who do not have large occupational or private pensions, *without* generating a savings trap. For it is possible to have targeting without means-testing.

Again, there are several options. The version I prefer would be paid on an individual basis and would take account only of a person's *pension* income. On reaching

minimum pension age, your basic pension and SERPS would be calculated as now, as would the amount of your occupational and personal pensions (taking account of any lump-sum payments). If the total pension from all these sources were less than the guaranteed amount, then your basic state pension would be increased to that level. So if the guaranteed amount were £80 a week and your basic pension plus SERPS plus occupational pension came to £70, then £10 would be added to your basic pension. There would be contribution conditions (although these would be reformed) but no account would be taken of savings, property or other income.

Participation income

The Commission also proposes a whole range of recommendations regarding the relation between work and benefits. We were particularly concerned with the transition from benefit to work, with the need to adjust social insurance to changes in the labour market, such as increased reliance on part-time work, with reforming the funding of education (including provision for lifelong learning), and with enactment of the Social Charter, including a minimum wage.

As to Basic Income, the Commission approves of the idea, but only for the distant future. What we say about Basic Income is coloured by our view of the economy, where we expect paid employment to remain the dominant occupation. At the same time, we recognise the need for a wider concept of social contribution, and for this reason we looked at a *Participation Income*, where people would have to demonstrate that they were contributing to society in order to qualify. Such a condition undoubtedly presents administrative problems, but it is important to remember that, as a condition for benefit, citizenship too raises a number of tricky issues.

Start with a Euro-BI for children

In my view, the most promising way forward in the direction of a Citizen's Income is through the European Union. A number of countries, such as France, are extending their means-tested social protection, but we should seek to persuade them that Basic Income is a preferable alternative. I propose starting with children. Just as in the UK Basic Income began with child benefit, so too all the member States could be required to pay a minimum level of child benefit. Countries paying more could continue to do so, but there would be a European Basic Income for children.

The need to work with human nature, not against it

Meanwhile the crucial issue, in my view, is not what appears in Party manifestos at the next election, although I expect all of them to be influenced by the Report, but whether it leads to a change in the climate in which policy is discussed. I hope that the next Government will see to it that there is an alternative strategy to that followed since 1979, a strategy where social policy works with the grain of human nature rather than against it.

Professor A.B. Atkinson is Warden of Nuffield College, Oxford.

DR PENELOPE LEACH

Being on the Commission for Social Justice represented two and a half years of work. They were a very exciting group of people to be with, and I got much more than I gave. It was almost the most educational time of my life: I had a crash course in economics with some of the best tutors in Britain. They were very hard-working. I have never known fourteen busy people work so hard.

There were quite a few out-reach visits. They were less important to me than to some of the others, because I'm used to talking to real-life people in the poor areas of Liverpool. We were divided into three panels — I was on the work and wages panel — but we all contributed to all parts of the Report. Naturally I have strong views on the way our society treats children and parents, and on education.

One of the mistakes people make is to think child care is a static problem. For most people it changes over time. In fact if you can find a childminder, pre-school child care is less of a problem than it will ever be again. Children rarely go to primary school for more than four hours a day; after-school care is desperately scarce, and then there are in-service days and half-terms, as well as school holidays.

I do think that the very youngest children, especially babies, do better with one-to-one child care. That's not to say that it's impossible to meet babies' needs, or that they won't do well, in group care. But it's difficult and very expensive. Choice and flexibility have to be our watchwords. And we have to recognise that people's needs vary over their life cycle, and between one individual and another.

I'm not confident that the Conservatives mean what they say about pre-school education. They're concentrating on four-year-olds, and certainly if you can't afford to cover the whole age range, it seems logical to give priority to the age group nearest to compulsory school age. But a lot of us are nervous that the Conservatives will simply make more four-year-old places available in primary school, effectively lowering the age of entry to four. A lot of four-year-olds are in school already, of course, but they shouldn't be. Primary school teachers are not early-years trained. Their training is for five years plus. So are the curriculum and the school environment. Nursery education is a speciality in its own right. I'm also afraid they may increase the number of places by halving the length of sessions each child attends. However reasonable that seems, what will it do to working parents, to be expected to take and fetch children in the middle of the working day? Either children won't get the opportunity to go or their mothers' working lives are ruined.

We need to integrate education and day care, so that education is caring and care is educational. There's a desperate need for after-school care and that's not even on the table. I think this is the kind of thing Labour would be determined to do, even if it couldn't be funded out of current budgets. The costs of having children, including the opportunity costs and especially the costs for women, are so great that there's an urgent need for some redistribution of resources from childless people to parents. That needn't mean raising extra revenue. Completing the phasing out of the married couple's tax

allowance, for example, would make it possible to raise child benefit by a sum that would really make a difference: £5 per child per week, for instance. But benefit increases alone are not going to do what needs to be done for children; even being the best possible parents isn't enough. Children are being brought up in an environment that just is not family or child-friendly.

To be in control of their lives, people need to be insured against unforeseeable contingencies as well as life-cycle changes, to be able to call on the welfare state when they need help and to pay it back when they can afford to. The Commission has proposed ways for people to foresee and cope with their own needs. For most people that's not possible at the moment. Insurance against the hazards of old age, for example, is beyond most people's reach. Only the seriously rich can insure themselves so as to cover the cost of private nursing home care.

The Commission's proposals for a *Learning Bank*, which I don't fully understand, are more of a concept than a proposal. It would be everyone's right to a minimum of three years' further education or training at any time during their lifetime — a right you could not lose. It would cover courses in acting as well as physics, in the form of day release, evening courses and part-time courses. The discrepancy between training and education has been a disaster.

It's sad that the residential element of young people's higher education should cease to be funded. The business of first leaving home is an important part of growing up. I'd have liked to see a scheme that kept grants available, but to all post sixth-form students, not just those taking the A-level and university route. But under this scheme even fees have to be borrowed.

I'd have liked to see fees, at least, paid for out of taxation. Still, education or training brings much higher wage levels, and loans only start to be repaid when a salary reflects the additional financial advantage. When the Claus Moser Commission did the costings of student training, they pointed out that the State also loses the income tax and national insurance contribution which students do not pay.

The Commission's recommendations to improve the appalling conditions of part-time workers are important. If you take it that part-time work should be paid for and treated *pro rata* like full-time work, you at once circumvent the current legislation, which tempts employers to employ people on a part-time basis because they are cheap. They are cheap because they have no rights to redundancy, pension contributions and so on. Close that huge loophole, and it's suddenly not cheaper to employ three women on slave wages than to pay a full wage to one woman, or half wages to two half-timers.

We also recommend paternity leave, and we would cut the qualifying period of employment a woman needs before she becomes pregnant, for eligibility for maternity leave, from two years to six months. That would make maternity leave far more difficult for employers to evade. At the moment many women are employed for just 22 months and then dismissed. It is just not worth taking people on for less than six months.

Another Commission recommendation that is a favourite of mine is part-time unemployment benefit for part-time

workers. At present many people who can't find full-time jobs can't afford to take part-time jobs, because they lose all their benefit and passported benefits too. More work, however little, should always make you better off. We'd find ways to solve the difficulty of people choosing to work part-time, but claiming that they wanted to work full-time and were therefore entitled to part-time benefit. We've made a strong point about the hardships people suffer when switching from one benefit to another. The old benefit, e.g. Income Support, should not be withdrawn until any new benefit, e.g. Family Credit, comes on stream. No decent welfare state should tolerate people who are entitled to benefit being left penniless in bureaucratic limbo.

CI and the need to revalue unpaid work

The Commission was interested in Citizen's Income, though most members of the Commission would not recommend it at this time. I find it a very attractive and logical idea. We also discussed Participation Income, but there are real difficulties. Would you get it if you said you were a poet? Or even if you *were* a poet? Or would bureaucracy decide that poets were not socially useful? However, one of our main aims was to revalue unpaid work. I don't think our Report quite lives up to that, but to me it's crucial. Unpaid work should include *all* caring relationships — not just of children or elderly relatives, but care for the community and the environment.

My only overall criticism of us as a group is that we were so concerned to show that our proposals were affordable, we slightly lost sight of social justice. But our basic premise remains that something has to be done.

*Penelope Leach trained as a developmental psychologist. She is the author of the best-selling parents' manual **Baby and Child** and most recently of **Children First: What Society must do — and is not doing — for Children Today** (Michael Joseph, £14.99, Penguin £6.99).*

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Basic income and economic efficiency

Ken Mayhew

In this his second article for the CI Bulletin, Ken Mayhew examines the labour market implications of a Citizen's Income (CI). In the first article, written in 1991, Mayhew suggested that a guaranteed, non means-tested source of income for every adult might stimulate more and better training and assist those at the margins of economic activity to help themselves. His aim, in other words, was to explore the efficiency arguments for Basic Income-type schemes. Last September, Citizen's Income Trust invited him to speak on the same theme to the international 'BIEN' Conference (see At Home and Abroad), and to consider whether he had modified his views during the four intervening years. This article, based on his resulting Conference paper, shows that he has not.

Writing for BIRG Bulletin No 12 in February 1991, I concluded that although I was not attempting to construct a comprehensive case for or against BI, the following considerations were important:

- For the lower paid, a BI scheme might represent an improvement on existing social security arrangements. Because it is guaranteed and not means-tested, effective tax rates (and thus potential disincentives) for those in poor jobs could be reduced.
- Although BI might encourage someone right at the margin not to take a job at all, this would not necessarily be undesirable. It would depend on what else that person did with his or her time. It might, for example, encourage some people to undertake more training or education, rather than go into dead-end work.
- To the extent that BI encouraged people to undertake extra education and training, it might also make them more demanding of potential employers, in terms of the quality of jobs on offer. In this sense it might therefore act as a lever for greater economic efficiency.
- On its own, at any realistic level, BI would be insufficient to have a major impact on skills, but it could be an important catalyst of attitudinal changes and in particular it could encourage a spirit of greater independence, which would lead to better long-run choices about employment.

Worse not better

Since 1991 my views have changed, not with regard to the potency of BI, but with regard to the severity of the problem we face. In part this is a reflection of research on the British training system that I have been doing with

my collaborator Ewart Keep, of the Warwick Business School. By 1991 it had long been recognised that vocational education and training in Britain was seriously deficient in comparison to the standards achieved by most of our major competitors. The 1980s witnessed renewed awareness of the problem and many policy initiatives. There were increases in training activity at the workplace, in those staying on at school after minimum school-leaving age and in the numbers going into higher and further education. Britain's workforce possesses more qualifications than ever before. Yet most commentators believe that the problem remains.

'Fordism' no longer right for the UK

Some have gone so far as to argue that much of British industry is trapped in a low skills-low quality equilibrium. They contend that, for a complex of deeply embedded historical and institutional reasons, too many British firms have adopted a low specification product strategy. Within any product range this involves choosing to produce standard, low value-added versions of the product: what sociologists used to call a Fordist strategy. Much the same thing is produced year after year, in order to increase the scope for large runs and greater economies of scale. Because production processes remain virtually unaltered for substantial periods of time, work-study engineers can design jobs in such a way that they can be done by people with relatively limited competence. This means that the demand for skills is low. By contrast, a high specification strategy involves competing on design, which requires frequent design modifications to meet rapidly changing tastes among wealthy consumers. It therefore requires workers (at all levels) who are adaptable and capable of learning on the job, and making contributions to production techniques as they perform their daily tasks.

In my 1991 article, I argued that this high-quality route was the one which Britain ought to be following. If too many British firms pursue a low-quality route, then in the medium term we find ourselves competing not with our Western European neighbours, nor with Japan, nor with the United States, but with the emerging, developing economies. Since they too have access to the technologies necessary to produce standardised products, the only way we can compete with them in international market, is by having wage costs that are as low as theirs.

The implications of this strategy for the living standards of a large segment of our population are obvious. By contrast, a high specification strategy means that we can compete on quality and design rather than exclusively (or even primarily) on cost. If we follow this route then we can sustain a high-wage economy.

The low skill and low quality equilibrium is a contentious hypothesis and direct evidence to clinch it is not easy to obtain. However, some is available.¹ It implies that the real nature of Britain's skill problem is that employer demand for skill is low; moreover the work that Ewart Keep and I have done has uncovered considerable evidence of this.² We are therefore more than ever convinced that the medium term problem for Britain is one of the wrong product strategy. We would stress that this does not mean that individual British employers are being foolish. As long as such a strategy satisfies their interests, then it is rational for them to pursue it. If at

some point in the future a company wishes to continue along the low route, but there is insufficient cheap labour in Britain for it, then production can often be relocated abroad. If a company wishes to turn to the high route, and the skilled labour is unavailable in the UK, then again relocation might well be an option. There are more and more examples of companies who are able and willing to do this.

Though the object of much critical scrutiny, the recent work of, among others, Richard Freeman and Adrian Wood³ has highlighted the macroeconomic implications of intensified competition from the Third World. More important, the competition is of two types: by trade and by location of production. The stark choice for Britain's less skilled workers could be of falling relative pay or chronic unemployment. In the end, however, not even this choice will be available, because our social security system would not be able to afford the latter. We have all become increasingly conscious of the growing inequality of earnings since the late 1970s.

International competition

Third World competition will exacerbate the trend already noticed by labour economists in Western countries, of a falling relative demand for unskilled labour. The reasons for up-skilling our workforce are compelling. However if the problem is one of low employer demand for skills (as the analysis undertaken by Keep and myself suggests), upskilling may be far more difficult than is commonly supposed. Some commentators are misled into arguing that in fact our labour force is being rapidly up-skilled, but Felstead and Green⁴ have shown that much of this so-called up-skilling often involves the acquisition of 'social skills' and of relatively routine IT competence. In any event, in an ever more technological world, the concept of skill is a relative one.

BI as a lever to upskill Britain's workforce

The faster that Britain can move to a high skills, high quality equilibrium, the faster that a proportion of lower paid, dead-end jobs will disappear. However, there will always be some such jobs. That is a cruel fact of the world in which we live. *How might BI make a difference?* It could be introduced as part of a reform of the tax and social security systems, reduce the poverty trap by increasing the net incremental incomes of those in lower paid employment. To the extent that it discourages some people from taking lower paid work at all, whether or not this is a bad thing would depend on what such people choose to do instead. It might encourage young people to remain in full-time education beyond the age of 16. It might encourage adults to refuse to take on just any job, but take a course at the local college of further education instead, thereby enhancing their subsequent labour market prospects. In short BI might give people greater chances of avoiding the rotten jobs, and by giving them the opportunity to become more skilled and more choosy, it might also act as a lever on firms to reconsider the sort of jobs they offer and their associated product strategy.

'The middle third'

The Labour Party's Commission on Social Justice⁵ recently discussed Citizen's Income, only to dismiss it. The Commission argued that one of its purposes was to allow the lowly skilled to take up lower paid employment — which is all that would be available to them — and yet maintain an adequate living standard. I can see what the Commission means. *But the imperative is for something rather different. It is to ensure that as small a percentage as possible of our population is in this low skill category.*

As a number of commentators have stressed,⁶ the key question is what happens to 'the middle third'. The top third are likely to be in high tech, well paid jobs. The bottom third are likely to be in relatively poor jobs. Unless we can alter the production strategy of many of our employers, then the middle third too will be competing at the low end of the labour market. On its own, Basic Income would not be enough to help the middle third avoid this fate, but at the very least we ought to be more aware of the fundamental problems the UK faces.

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Notes and references

1. See, for example, the work of Prais and others in the National Institute Economic Review; Oulton in the National Institute Discussion Paper No. 47, 1993; and A. Buxton *et al* in *Britain's Economic Performance*, Routledge, 1994.
2. Ewart Keep and Ken Mayhew, *UK training policy: assumptions and reality*, in A. Booth and D. Snower (eds.), *Acquiring Skills: Market Failures, their Symptoms and Policy Responses*, forthcoming Cambridge University Press.
3. See, for example, A. Wood, *North-South Trade: Employment and Inequality*, Oxford University Press, 1994.
4. A. Felstead and F. Green, *Training during the recession*, in *Work, Employment and Society*, 1994.
5. *Social Justice: Strategies for National Renewal*, Report of the Commission on Social Justice, Vintage, 1994.
6. See, for example, D. Soskice, *Social skills from mass higher education*, Oxford Review of Economic Policy, Autumn 1993.

Why a £20 CI is better than lowering income tax to 20%

Hermione Parker and
Holly Sutherland

One of the priorities of current policy-making in the UK is to reduce the standard rate of income tax to 20% as soon as circumstances permit, and preferably in time for the next General Election. Thanks once again to the tax-benefit simulation model (Polimod) constructed by the Microsimulation Unit at the University of Cambridge, it has been possible to compare the distributional effects of a 20% standard rate of income tax with the distributional effects of a £20 a week Basic Income (BI). The figures refer to the tax year April 1994 to April 1995, but assume that economic growth has already given the Chancellor the extra £9,400 million needed to finance a 20% standard rate of income tax. In the text that follows both authors wish to emphasise that the changes described are not policy proposals, nor are they the 'preferred' schemes of either author. Our purpose was to demonstrate their different distributional implications: from poor to rich (with a 20% standard rate of income tax), or from rich to poor (with a £20 BI). We call the TBI option 'TBI 96', in order to emphasise that the Government has more than one way of reducing the tax burden before the next Election.

Basic Income (BI) is a new approach to social security which would extend the equivalent of child benefit to every citizen. One of its attractions is its ability to combine symmetry between married and single people with tax according to ability to pay (or at least closer to it than at present). The present system of income tax allowances is grossly asymmetrical between different family types, with tax liability according to marital status instead of ability to pay. Assuming no tax reliefs other than the main personal allowances and no dependent children, income tax allowances and their weekly values in 1994-95, for standard rate taxpayers, are as shown in Table 1. If married couple's allowance were abolished without anything being put in its place, single-earner married couples would pay the same income tax as single people at the same level of gross earnings, although their living costs are clearly higher. The income level at which they would start paying income tax would fall to £66.25 (at 1994-95 prices) which is BELOW the guaranteed minimum income of £71.70, payable to out-of-work couples receiving Income Support. Couples receiving Income Support would therefore be liable for income tax on part of it.¹

The disadvantage of income tax allowances is that they are useless to people without the income to set against them. That was the argument behind the switch from child tax allowances to child benefit, and it is one of the main arguments in the case for a Citizen's Income. As far

Table 1: Income tax allowances, 1994-95

	£ week	Value £ week*	Ratio to single person
Single person	66.25	16.56	1.0
2-wage married couple	165.58	39.75	2.5
2-wage unmarried couple	132.50	33.13	2.0
1-wage married couple	99.33	23.18	1.5
1-wage unmarried couple	66.25	16.56	1.0

*At 25% income tax

as we know, Basic Income (BI) is the only reform option currently available which can make the tax-benefit system symmetrical between men and women, married and single, whilst also protecting living standards at the bottom. Every adult citizen would get the same basic amount, either as a credit against their income tax or as a cash benefit. Sex and marital status would not come into it. Similarly the amounts for children would be unaffected by the marital or work circumstances of their parents. In addition to helping single-wage couples and couples with and without children, BI would help men and women who give up work to care for relatives or friends, or earn less than their tax allowance. Every adult of working age would get the same basic amount and pay tax on all his or her other income, but some schemes (including the one described here) also allow small, fixed-amount tax discounts (or deductions) against earned income while others (not described here) also include childcare tax reliefs.

In terms of votes, income tax at 20% looks a natural winner, for in the short term most people would gain and none would lose. However in the bottom half of the income distribution the 'feel-good' effect would be short-lived, because most people would gain nothing at all or very little. By contrast, a Basic Income financed by a tax on all (or most) other income would produce losers as well as gainers, but the gainers would be at the bottom of the income distribution and the effects of their gains, by increasing work incentives and reducing benefit payrolls, would help everyone (Figure 2).

Two reform options

Our purpose was to discover the size of BIs that could be afforded for the same cost as a 20% standard rate of income tax; and to compare the distributional effects of each option. Option A, at an estimated cost of £9,400 million, reduces the standard rate of income tax to 20%. No other changes are necessary, for it is assumed that the extra cost can be financed out of the increased tax base, as a result of economic growth. Option B ('TBI 96') is more complicated (Table 2). Instead of the personal income tax allowances, every adult gets a Transitional Basic Income (TBI) of £20 a week (£1,040 a year); instead of child benefit, every child gets a TBI of £15.65 a week (£814 a year); and there is a fixed-amount tax discount of £5.72 a week on the first £22 a week of earned income. The threshold for higher-rate income tax stays at £23,700, but cuts in as soon as the tax-payer's income reaches £23,700, instead of £23,700 plus the personal income tax allowance as at present. The 20% band of income tax is abolished, and the April 1994 increase of 1% in National Insurance contribution is replaced by an increase of 1%

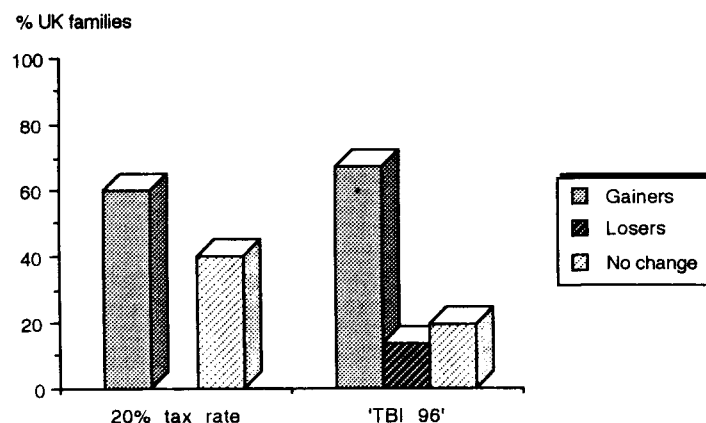
in the standard rate of income tax, which becomes 26%. This is in preparation for replacement of National Insurance contributions by an integrated income tax. A new higher-rate tax band cuts in at 50% on incomes above £65,000 and private pension income tax reliefs are restricted to 20%. The other changes in Table 2 are consequential.

Table 2: TBI 96, detail of proposals

1. Adult TBIs of £20 a week replace all income tax allowances, except age allowance.
2. Child TBIs of £15.65 a week replace child benefit.
3. Earned-income tax credits introduced, worth a maximum of £5.72 a week.
4. Abolition of 20% income tax band.
5. Standard rate of income tax increased to 26%.
6. NI contribution reduced to 9%.
7. New 50% rate of income tax on taxable incomes above £65,000.
8. Tax reliefs on superannuation and personal pension contributions restricted to 20%.
9. Existing NI benefits and income support reduced by the TBI amounts.
10. All residual NI benefits and pensions become tax-free.
11. Consequential changes to family credit to ensure that low-income families do not lose out.
12. Consequential changes to age allowance, to ensure that pensioners do not lose out.

Redistributive effects

Although a 20% standard rate of income tax financed out of economic growth is politically attractive, because there are no losers and many gainers (Figure 1), it does not help families at the bottom of the income distribution (Figure 2). Moreover, if economic growth were insufficient and the 20% tax rate were partly financed out of higher NI contributions, rents, council tax, or abolition of married couple's income tax allowance (as seems likely), the overall effects would include losses at the bottom.

Figure 1: Gainers and losers: 20% standard rate of income tax, compared with transitional BIs of £20

Source: Polimod.²

Table 3: Net incomes compared
Single-wage married couple with two children, weekly earnings £200

1994-95 position		Income tax 20%		'TBI 96'	
	£		£		£
Earnings	200.00	Earnings	200.00	Earnings	200.00
Child benefit	+ 18.45	Child benefit	+ 18.45	BIs	+ 71.30
Family credit	+ 4.46	Family credit	+ 1.14	Family credit	+ 0.00
Income tax	- 23.94	Income tax	- 20.14	Income tax	- 52.00
NI contribution	- 15.44	NI contribution	- 15.44	NI contribution	- 14.01
Net income	=183.53	Net income	=184.01	Earned income tax credit	+ 5.27
				Net income	=211.01

By contrast, 'TBI 96' concentrates help at the bottom of income distribution where it is most needed (Table 3). At weekly earnings of £200 and assuming a married man with two children the gain from income tax at 20% is a mere 48 pence, compared with £27.48 from TBIs of £20 for adults and £15.65 for children.

From Figure 2 it can be seen that cutting the standard rate of income tax (the diagonally striped columns) is no help at all to families in the bottom two deciles and very little help to families in the next two deciles, after which the gains increase until they reach an average of £20.50 a week (over £1,000 a year) in the top decile (where they are not needed). About half the families in Decile 5 gain up to £5 a week, compared with 84 per cent of families in the top decile who gain over £15 a week. By contrast 'TBI 96' produces gains at the bottom averaging £14.50 (where the universal TBIs replace means-tested benefits that are not always claimed); a small hump in the middle of the income distribution where large numbers of families with children, including many single-earner families, are congregated; and losses at the top averaging £8.72. Just under 58 per cent of families in the bottom decile gain over £15 a week, while 12 per cent in the top decile lose over £15 a week.

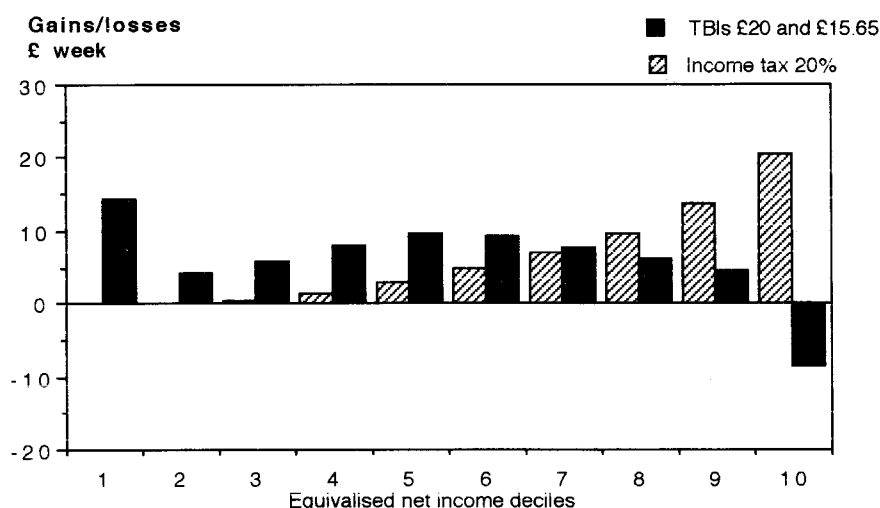
Work incentives

Cutting the standard rate of income tax to 20 percent will at best leave work incentives at the bottom of the

earnings distribution unaffected, depending on the way it is financed. By comparison, the incentive effects of Basic Income would depend on the BI amounts, which must be neither too big nor too small. For 'TBI 96', a child BI of £15.65 was selected because that is the 1994-95 Income Support allowance for children aged under 11. Like child benefit, the BIs count as a resource for income support, so if Dad loses his job the family's Income Support becomes £41.75 a week (plus the BIs) instead of £94.60 (plus child benefit), a significant drop. With 'TBI 96', unemployed families have two choices. Either they can claim residual Income Support (with its earnings rules and invasion of privacy) or they can take whatever work is available, knowing that the first £22 earned by each adult would be tax-free.

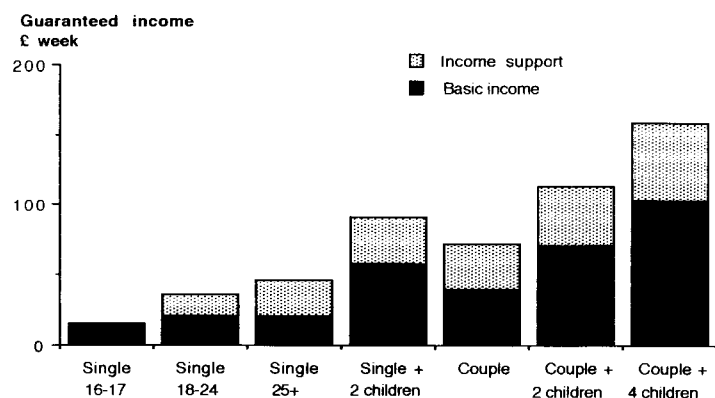
In Figure 3, the total of each column represents the guaranteed Income Support allowances plus premiums in 1994-95 for each of the selected family types. The black sections represent the proportions of income support entitlements (excluding housing) represented by the TBIs. Because the TBIs count as a 'resource' when calculating residual Income Support entitlement, no unemployed family would be entitled to more benefit than now, but so long as they did not claim residual Income Support (the pale sections of the blocks in Figure 3), they would at least be free to earn as much as they were able, the first £22 a week earned by each spouse would be tax-free, while residual family credit and housing benefit would remain in place. Meanwhile 16-17 year olds would receive an income in their own right (in or out of work).

Figure 2: 'TBI 96', compared with 20% income tax Average weekly gains/losses, equivalent income deciles, all UK families



Source: Polimod²

Figure 3: To work or not to work?
'TBI 96' compared with income support



Conclusion

Despite talk of tax cuts 'when the time is ripe', Britain's poorest families will at best break even from a 20% standard rate of income tax, and if it is accompanied by abolition of married couple's tax allowance, without putting a Basic Income (BI) in its place, many stand to lose. As explained, BI is the only reform option we know of that can protect low-income families against increased income tax whilst also making the tax system symmetrical between married and single. And the reason is simple. An income tax allowance is worthless unless you have the income to set against it.

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Notes and references

- 1 Unmarried couples collecting Income Support are already in this position, although it seems that the DSS disregard their income tax liability.
- 2 The computer modelling for this study was carried out using POLIMOD, a programme written by Holly Sutherland and Gerry Redmond, as part of their research on policy simulation at the Microsimulation Unit, University of Cambridge. POLIMOD uses data from the Family Expenditure Survey, made available by the CSO through the ESRC Data Archive. Neither the CSO nor the Data Archive bear any responsibility for the analysis or interpretation of the data reported here.

At Home and Abroad

We rely on readers to keep us informed about events concerning Basic or Citizen's Income world-wide. If you know of something that may be relevant, please write to the Editor, c/o The Citizen's Income Study Centre.

Republic of Ireland

Social Policy Conference: Towards an adequate income for all

Hermione Parker writes: Basic Income remains high on the political agenda in Ireland. On 21st September 1994, the Justice Commission, Conference of Religious of Ireland, organised a one-day conference in Dublin, to address a range of issues, including: justifications for an adequate income; how a fairer, more effective income redistribution system could be developed; what a Guaranteed Basic Income system would look like in practice; whether it could be afforded; and its distributional consequences. The Conference, which was opened by Dick Spring T.D. (Minister for Foreign Affairs), focussed on four papers: (1) *Tax and Social Welfare: The Case for Change*, by Donal de Buitleir (Member of the Government's Expert Working Group on Integration of the Tax and Social Welfare Systems); (2) *Arguing for an Adequate Income Guarantee*, by Brigid Reynolds and Sean Healy (Conference of Religious of Ireland); (3) *Evaluating Basic Income Options*, Tim Callan (Economic and Social Research Institute, see Books Received); and (4) *A Basic Income System for Ireland* (Sean Ward, public sector analyst). A book containing these papers is available (see Books Received).

Netherlands

Vereniging Basisinkomen

Saar Boerlage writes: For 75 years the Christian Democrats dominated government in the Netherlands, but in the May 1994 election they lost. Now there is a government combining Labour, left-wing liberals and conservative-liberals. People had hoped for a government with an open mind about the future. But the results are disappointing. Basic Income (BI) is not on the agenda as a solution for the problems of the social security system. So the situation remains unacceptable: a rich country where the social climate is cold, unemployment is on the increase and the incomes of the jobless, sick and old working class are going down.

However, not everything is negative. Opposition to the present situation is growing and the new Minister of Finance (a former head of the Central Planning Office

(Centrall Plan Bureau) sees BI as a possible way out. He (and others) want it debated. Throughout 1991 the debate about BI was dead in the Netherlands. But today nearly every Saturday there is an article about it in one of the newspapers and also many references to it. Students are writing dissertations about BI, books have been published and its pros and cons are reviewed in academic journals. Ten years ago discussion of BI was restricted to socialist or radical groups. Today it is discussed by the Right as well. BI advocates describe the existing social security system as inhumane, because it invades people's privacy. The poverty trap keeps people poor and the result is that increasing numbers of people have to choose between going into debt or working illegally. There is also much discussion about the structural nature of unemployment. Only a minority think unemployment is here to stay, but their number is growing. The opponents of BI are the well-known economics professors. They say that BI is too expensive and the taxes necessary to finance it would destroy the economy. Others say that if the BI was big enough to live on, it would be a disincentive to work.

The organisations of the BI movement has also changed. Formerly the *werkplaats basisinkomen* was composed of organisations like trade unions, small left-wing political parties, unemployed groups and so on. So there was no opportunity for individuals to become members, which was unhelpful and contrary to the way we think about the primacy of individuals. Today we have the *vereniging basisinkomen* (Basic Income Association). Most members have links with the former member organisations, but a lot of new members are linked to other political groups. We welcome this. Our goal is to get a majority in Parliament in favour of BI.

We are trying to encourage discussion at all levels and in all organisations. We arrange round-table discussions with Members of Parliament, and maintain close contact with university professors. Every year we organise at least one study group and our members speak at many other conferences. We also hold discussions for *Vereniging* members, sometimes with the emphasis on instruction and sometimes real debate. In 1993 we held a debate about how the *vereniging basisinkomen* should react to the idea of a very low BI. At the meeting it was decided that our aim should be to get a BI equal to the existing social assistance entitlement for a single person living alone (currently 1300 guilders a month). But we also support proposals for its gradual introduction, especially when the phasing in period is only a few years. However, people who advocate a small BI without showing how it can be increased to the social assistance level are working for something different. Since the meeting mentioned above, some members of the *vereniging* have prepared a blueprint for introduction of BI. We have studied several costing methods, as a result of which we now have a realistic answer to the question how to raise the 185 billion guilders necessary to give every adult a BI of 1300 guilders a month.

We look forward to increasing the debate about BI in the coming years.

United Kingdom

CI and the trade unions Promoting the debate

Earlier this year, Citizen's Income Study Centre brought together a group of senior trade union researchers and officials to examine the implications of CI for the trade union movement. Under the chairmanship of Barrie Sherman, who has been involved in trade union research for some years and is the author of publications about the impact of technology on the future of work, a series of meetings was held to discuss how CI would affect traditional trade union practice. Here Barrie Sherman sums up the group's findings.

Barrie Sherman: There are good reasons why trade unions should be interested in Citizen's Income (CI), not least because the workfare measures to be introduced with the Government's recently announced *Job Seeker's Allowance* will move us in the opposite direction. This fact as well as other reasons for trade union support of CI emerged from the recent discussions of a small trade union working party, which formulated a short paper introducing CI from a trade union perspective. There are also reasons why the unions will not go overboard about CI; indeed the working party rightly resisted the temptation to see CI as the answer to all our problems. It tried to be practical, not merely theoretical, and produced a short paper suggesting the unions make CI an item on their welfare policy agendas, explain it and debate it.

Looking at the various options for a BI which have been discussed, the group agreed that the Universal Hourly Benefit (UHB) suggested by Anne Gray in Bulletin No. 16 (*Citizen's Income, minimum wages and work sharing*, July 1993) had distinct advantages for the trade union movement. It would operate in conjunction with a national minimum wage. The group felt that such a policy could help people back into the labour market, stabilise and sustain family units during times of stress, and, because CI would be an individual allowance, provide extra freedom — especially for women. In these respects a CI could be an element in a trade union strategy to make labour market flexibility a positive proposition for employees.

It was argued that the introduction of a CI would by its nature be a positive macro-economic instrument in the hands of a sympathetic government, although it would not counteract other fiscal policies. Even without a minimum wage it could put a floor under wages, thereby combating bad employers who hold the threat of poverty like a Sword of Damocles over the heads of poorly paid employees; and reducing the 'reserve army of labour' which tends to take jobs at any price.

There are also downsides in CI for the trade unions, although in all honesty some could be seen as philosophical rather than practical responses. For example there is a fear that if the trade unions argue for CI, they are accepting that high unemployment is inevitable. CI also implies, so the union argument goes, an unconditional acceptance of secondary labour markets and a subsidy to bad employers, not to mention

downgrading the Beveridge welfare state. However, in practical terms the potential loss of jobs in the Civil Service (due to administrative savings) and the widespread (but misinformed) argument that CI would subsidise fecklessness may well prove more damaging.

There are times in the British trade union movement when policy overrides practicality, or indeed compassion. While there is no doubt that unions wish to protect the lower paid and those in poverty, it is an inescapable fact that the majority of those in poverty are not in paid work. Yet these are the people CI would probably help most.

The insistence, also, that CI can only be introduced alongside a minimum wage ties the hands of trade unions in the event of a government opposed to a minimum wage. There is also marked reluctance on the part of the trade unions to accept that the growth in unemployment and part-time jobs will continue. If they do continue, then CI becomes a very attractive proposition — mainly because other welfare systems cannot cope. But if, for 'policy reasons', the possibility of continuing unemployment and flexible labour market practices cannot be admitted publicly, then CI loses a lot of its charm for the trade unions.

Paradoxically, the Job Seeker's Allowance may prove to be the hook on which an informed trade union discussion about CI can be hung, alongside the Social Justice Commission's report. Both will bring union attitudes to low pay versus no pay into the open — and clarify what unions really believe is happening in the job market. That something has to be done about poverty and welfare payments is clear. Whether CI gets adopted by the British trade union movement is, I believe, a matter for the long term rather than the short term. But at least the debate is beginning.

BASIC INCOME SANS FRONTIÈRES

BIEN Congress, London 8th-10th September, 1994

Richard Clements writes: Organising a conference for participants from many parts of the globe is enough of a nerve-racking business. Organising a conference when the executives responsible for it are themselves scattered across many countries inevitably adds to the tensions. But here let me immediately pay tribute to all those who attended the fifth Basic Income European Network (BIEN) Congress at Goldsmiths College in London last September. It turned out to be a stimulating and friendly exchange of views of great value, shared by expert and novice alike. The concept of basic income is gathering friends right around the world.

Citizen's Income Trust had agreed to host the fifth biennial Congress in the expectation that we could build on the previous conferences in Louvain-La-Neuve, Antwerp, Florence and Paris. And we were determined from the start to ensure that the London Congress would widen the international flavour of those events. Whilst encouraging participation from the host nation, we wanted equally to tap the possibility of representation from abroad. We were keen to get an exchange of ideas and experiences which jumped national boundaries.

Our success made all the organisational hazards worth while. Once the list of participants looked something like a mini-United Nations, we knew that we were heading in the right direction. For those of us whose experience of the debate about BI is drawn exclusively from the UK, it was a particularly helpful and encouraging exercise.

While Citizen's Income Trust alone must take responsibility for any shortcomings, a considerable part of the success of the Congress was due to those who have sustained BIEN since its foundation in 1986. Philippe Van Parijs, Guy Standing, Edwin Morley-Fletcher, Walter Van Trier and Alexander De Roo have played a vital part in maintaining the enthusiastic drive which has turned the BI concept into a valued objective in so many countries. I am happy to quote Philippe's comment about the London Congress: "Such well designed gatherings are an essential contribution to the liveliness and effectiveness of our movement."

All the speakers were listened to with interest. The effort was made not simply to sing our own praises, but to provide the critique necessary to strengthen our arguments. Sir Samuel Brittan and Lord (Meghnad) Desai may represent differing ends of the political spectrum, but their insistence on the need for social policy change explains the growing interest in BI. Particular interest arose from the contributions of Senator Eduardo Suplicy from Brazil and M. Lionel Stoleru from France. Comparing the implications of BI for countries in such differing stages of development gave great food for thought.

What pleased us most, however, was the high level of input from the floor. The study groups reflected that. Participation was the keynote of this Congress and it developed both in the plenary and study sessions and in the after-hours discussions. The danger is that such a Congress can be structured so as to prevent debate rather than encourage it. We hope that, by bringing together so many people representing so many strands of the argument, we accomplished what we set out to do.

Where the next BIEN Congress will be held is not yet known. There is a possibility that it will be in the Netherlands or Austria. One thing is certain: it will take place some time in September 1996 and the BIEN Executive is already starting discussions to get it off the ground.

Here in the United Kingdom we are lucky that David Purdy has taken over as editor of the BIEN Newsletter. He can be contacted at the Department of Social Policy, University of Manchester, M13 9PL. The BIEN Newsletter provides an important link with the national centres in their continuing research into the BI concept. Readers of this Bulletin who are interested in subscribing should contact David Purdy. He would also like to hear about any press or media material which refers to Citizen's Income or Basic Income.

I am sure that all of us at Citizen's Income Trust came away from the BIEN Congress much enlightened by the contributions and fascinated by the diverse nature of the papers presented. But above all we were deeply impressed by the experiences of our overseas colleagues in arguing the case in their own countries. I know it is BIEN policy to help strengthen the work of the various

national centres. I hope that my experience as Director here at the Citizen's Income Study Centre will be helpful to those who are trying to form equivalent bodies in their own countries. I certainly learned a lot that I hope to be able to implement here in the UK.

After sixteen years in favour of CI, Britain's Liberal Democrats do a U-turn

Philip Vince writes: At their annual conference in September 1994, Britain's Liberal Democrats voted against reaffirming their commitment to Citizen's Income, rejecting this option by a majority of about 3 to 2 in a motion to endorse a new tax and benefits policy paper. Opinion within the Party's policy committee and the group who drafted the new policy paper had been fairly equally divided, so the decision whether or not to support CI was left to conference.

The decision not to support CI ends a commitment which goes back to 1978, when the then Liberal Party voted in favour of Tax Credits (which resemble CI in all but name). In 1979 and 1983 pamphlets were published by Lord Banks and myself, explaining and costing the policy. Significantly, CI was never accepted by the Social Democrats during their alliance with the Liberals, 1981-1987. Then, after the two parties merged to form the Liberal Democrats in 1988, Baroness Seear chaired a policy group which produced a comprehensive tax and benefits policy document under the title *Common Benefit*. This included a proposal for a transitional BI, to be introduced after one Parliament, with the intention of progressing to a partial BI at an unspecified subsequent date. Following terminology introduced in 1989 by Paddy Ashdown, the new party leader, Basic Income was renamed Citizen's Income (CI), and Baroness Seear's

policy document was overwhelmingly approved by the Party's conference in March 1990.

After the 1992 General Election, some leading Party members who had been Social Democrats argued that policies had to be modified — to avoid increasing taxes — if there was to be any hope of success in future elections. Sir William Goodhart was appointed to chair a working group to revise tax and benefit policy. This led first to publication of Consultation paper No. 10 (reported in CI Bulletin No. 18) and finally to the policy paper *Opportunity and Independence for All*, debated last September. While endorsing many of the proposals in *Common Benefit*, the new paper approaches them in a form which merely tinkers with the existing tax and benefit systems, instead of leading to their radical overhaul. The chief arguments levelled against a partial CI were that it is too expensive and would retain much of the present system's complexity, because many income-tested benefits would be retained alongside the partial CIs. It was also asserted that the main policy aim should be to raise the living standards of unemployed people on Income Support rather than raise the net incomes of lower-paid wage-earners caught in the poverty trap. In proposing the option to reaffirm support for a partial CI, Baroness Seear cited the article by Hermione Parker and Holly Sutherland in CI Bulletin No. 18, which showed that CI is not too expensive. Most of the speeches in the debate supported CI, but it was defeated on a show of hands by a margin that was big enough for it to be unrealistic to call for a counted vote.

As the next General Election approaches, the Liberal Democrats will concentrate their attention on immediate steps to ameliorate Britain's creaking tax and benefit systems — as would have been necessary anyway, because of the time it would take to implement even a transitional CI. Whatever the result of the next General Election, the issue of CI is sure to feature in longer-term policy making immediately after it.

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Book Reviews

CAPITAL AND THE KINGDOM Theological Ethic and Economic Order

Timothy J. Gorringe

Orbis/SPCK Books pp 200 ISBN 0 28 1047731
hbk £15

Stanley Booth-Clibborn writes: I read this book with interest and excitement. Although it is written from within the Christian tradition (the author is Dean of St John's College, Oxford), it has many things to say to people of any faith or none, not least to those of us concerned with radical changes in benefits and taxation through a Citizen's Income.

The author starts from the challenge given by God to the Israelites of old: "I have set before you life and death, blessing and curse; therefore choose life that you and your descendants may live". He believes that the present economic order faces our world with crucial choices as we see the transfer of wealth from poor to rich in every land, with devastating effects on the environment.

Readers of this journal will be particularly interested in the powerful arguments for greater economic and social equality. But there are also perceptive comments on such issues as work and leisure, the structure of industry, and the struggle of unions for fairer terms of labour.

Some readers may be daunted by the mass of references to and quotations from various authors, for there is a vast literature on these themes, and few of us are familiar with more than a fraction of it. But it is good in these days to see Marx taken seriously as well as the Bible. I can warmly commend this work.

Stanley Booth-Clibborn was Bishop of Manchester and is a CI Trustee.

SOCIAL JUSTICE: STRATEGIES FOR NATIONAL RENEWAL Report of the Commission on Social Justice

Vintage, pp 418, ISBN 0 09 951141 X, pbk £6.99

Jane Millar writes: After sixteen years during which 'social justice' has been considered by those in power as a meaningless concept that has no place among the goals of public policy, this report — by placing the pursuit of social justice at the heart of economic renewal — represents a welcome shift. Its aims are:

... to offer a compelling analysis of the challenges facing the United Kingdom, to set a vision of the future and to develop practical strategies which would enable this country to change for the better (page 397).

The first of these aims — analysis of the problems — is

clear and compelling. The second — the vision of the future — is more vague and difficult to grasp. The third — the practical policies — includes some very good ideas, but also some disappointments, including retention of means testing and a rather hasty dismissal of Citizen's Income (CI).

In its diagnosis of the problem the Commission pulls no punches. At the very start of the report the UK is described as a "tired, resentful, divided and failing country" (p 1). The first chapter analyses the *State of the Nation*, bringing together statistics on poverty and inequality, unemployment and economic inactivity, levels of education and training, health inequalities, housing, environment, crime and racial discrimination, to show exactly the ways in which so many people have so little and so few opportunities to improve their situations. Thatcherite policies are blamed for this to some extent, but "the causes reach well back before the onset of the Conservative administration in 1979 ... the foundations of the post-war settlement [having] been destroyed by national and international change" (pp 62-63). This includes massive changes in the world of paid work, in the family and in the political context in which we live. The Commission argues that we must find ways of responding to these changes in order to create a welfare state which meets new needs.

The principles that should, according to the Commission, underpin social and economic policy include a commitment to meeting basic needs for all, providing equal opportunities and life chances, and reducing unjust inequalities. Economic prosperity and social justice are not, it is repeatedly stressed, antithetical; on the contrary they are tightly bound up with each other. "There will be no solid economic success without more social justice ... we cannot have social justice without a decent measure of economic success" (p 18). Central to the report is the argument that economic opportunities and investment, especially in people, are essential to promote social justice. The policy proposals start with education and training, emphasising both the need for a good start (through the provision of universal nursery education) and lifelong learning (funded through a Learning Bank). This is followed by proposals for the support of paid employment through policies to help the long-term unemployed, job subsidies, strengthened employment rights, parental leave and minimum wages.

Social security is tackled next and here the core proposal is for a reformed social insurance system, extending the coverage of the current system, but keeping the broad structure more or less the same as now. This chapter also includes a look at health and community care policies. Finally there is discussion of policies to achieve a 'good society', covering such topics as financial support for children, the need for the regeneration of local communities, support for voluntary work through a Citizen's Service, and political ways to achieve accountability. A chapter on taxation, setting out principles rather than specific policies, completes the report.

It is a wide-ranging document. Its 400 plus pages are generally quite easy to read, but its length and detail do cloud the overall strategy. I found this its main weakness. The links between the problems, the principles, and the policy proposals are not always clearly brought out and

sometimes appear contradictory. For example, on pages 245-251, the reasons why means testing is "fatally flawed" as a strategy for benefit delivery are discussed, yet means testing plays a not insignificant part in the Commission's policy proposals throughout the report: to pay for child care, to support 16 to 17 year-olds in education/training, to pay for community care, and above all to act as a safety net for social insurance, to supplement low wages (in a different form), to recoup the costs of students' fees and maintenance and claw back child benefit from higher-rate taxpayers. Although means testing may be the best approach in such cases, the case for it would have been more convincing if there had been a much more systematic discussion of the principles involved, including setting out the arguments as to when different types of income, assets and means tests can and cannot be justified.

The proposal to tax child benefit for higher-rate taxpayers highlights a gap between principles and proposals. The principle of independent treatment for men and women is accepted, and so is the case for child benefit as horizontal redistribution of income from families without dependent children to families with dependent children at all levels of income. Given acceptance of this argument, why propose to tax child benefit? The reason given is that taxing better-off parents "could increase popular support for a benefit that fulfils an essential purpose, while raising additional revenue" (p 317). Similarly the main reason for rejection of the Citizen's Income strategy is that a "change of this magnitude would have to be backed by a broad-based consensus of which there is, as yet, no sign" (p 262).

This eye on the practicalities is undoubtedly a function of the Commission's status in relation to the Labour Party, as a result of which it is anxious to avoid any taint of the loony left. It also, of course, makes sense to develop policies that are in line with what is acceptable to the population at large. However, such judgements are the province of politicians and the Commission should perhaps have stuck more to arguing out the principles and demonstrating the connections between the goals sought and the policies proposed to meet them. Citizen's Income might then have been treated with more enthusiasm, even if considered impractical in the short term. For the report does recognise the potential for CI to meet some of the problems highlighted. Hence the paragraph on the cover of this Bulletin:

... if it turns out to be the case that earning simply cannot provide a stable income for a growing proportion of people, then the notion of some guaranteed income, outside the labour market, could become increasingly attractive ... Our measures would not preclude a move to Citizen's Income in the future (pp 263-264).

The proposals for a pension guarantee and for much higher rates of child benefit could have been discussed as forms of Citizen's Income for elderly people and for children, and thus as ways of building consensus for future changes in the direction of a universal Citizen's Income.

Notwithstanding these criticisms, if this report comes to form the basis of policy for a future Labour government, many people will have cause for more optimism than has been around for a long time. Reconstructing Britain's

welfare state to meet the needs of our changing society and to restore the living standards of the many who live in, or near, poverty is a major task. The report of the Commission on Social Justice contains much that is both sensible and practicable. If it succeeds in rejuvenating the debate about the goals of the welfare state, then the exercise will have been worthwhile indeed.

Jane Millar is Professor of Social Policy at the Centre for the Analysis of Social Policy, University of Bath.

Books and Papers received

We rely on readers to keep us informed, by sending us research papers, articles and other publications on Basic or Citizen's Income (world-wide). If you have something you think is relevant, please send a copy to the Editor, c/o Citizen's Income Study Centre, St Philips Building, Sheffield Street, London WC2A 2EX.

Basic Income, Citizenship and Solidarity: Towards a Dynamic for Social Renewal. J. Vilrocx, in **Work and Citizenship in the New Europe**, H. Coenen and P. Leisink (eds), Edward Elgar, 1993. Existing welfare states are based on the premise that full citizenship requires participation in the labour market, as a result of which non-participants (including the long-term unemployed and a disproportionate number of women) are treated as second-class citizens. Full citizenship, says Vilrocx, is only possible when the link with paid work is broken.

Europe: for Richer or Poorer? eds. Robin Simpson and Robert Walker. CPAG Ltd, 1-5 Bath Street, London EC1V 9PY, 1993, 118 pp, ISBN: 0 946744 55 6, pbk £6.95. Contributors to this book, from across the European Union (EU), examine moves towards a guaranteed minimum income in all the member States. It starts hopefully enough, with a reminder by Quintin Oliver (Director of the Northern Ireland Council for Voluntary Action and Secretary of the European Anti-Poverty Network) that "we should be endeavouring not just to understand the world — we should be aiming to change it" (p x). For readers of this Bulletin, however, all hopes are dashed by Bernd Schulte of the Max Planck Institute in Munich. Writing on *Guaranteed minimum resources and the European Community*, Schulte pushes strongly for the extension of guaranteed minimum incomes (means-tested, work-tested and family-based) to all the EU member States. Basic incomes, he says, are not on the agenda. "No scheme in any member state is based on the idea of a guaranteed basic income through which a specified amount of money is given to any citizen solely on the basis of citizenship or residence in the respective state" (p 44). Given Schulte's renowned expertise on social security law, this statement is surprising, for what is child benefit but a CI for children, especially in those member States (like Germany and the UK) where it replaced child tax allowances? And what but Citizens' Pensions are the residence-based old age pensions payable in Denmark and the Netherlands? Clearly Schulte is a traditionalist. On page 49 he writes: "Any

form of basic income guarantee would undermine the capacity and relevance of traditional work-oriented, contributory systems of social protection ...” But he does not say why.

A Negative Income Tax in a Mini Welfare State: a simulation with MIMIC. Nicole E. M. de Jager, Johan J. Graafland, George M. M. Gelauff. Central Planning Bureau, Research Memorandum 112, The Hague, March 1994, 29 pp, ISBN: 90 743 6468 3. This paper (available in English) analyses the labour market effects of Basic Income, using the applied general equilibrium model of the Central Planning Bureau of the Netherlands (MIMIC). Two options are analysed. The first assumes no other changes to the existing social security system, while the second assumes radical reform along the lines of a Basic Income. For British readers the analysis is confusing, for it uses the term Negative Income Tax as though it were synonymous with Basic Income, despite the fact that the term *basisinkomen* is well known in the Netherlands and was used by the Netherlands Scientific Council for Government Policy in their 1985 report *Safeguarding Social Security in the Netherlands* (See Jos Dekkers’ article in BIRG Bulletin No. 6, 1986). According to MIMIC, the net effects on employment of Option 1 would be negative, while the net effects of Option 2 are ambiguous. This is because the introduction of BI reduces replacement ratios, making lower paid jobs more financially attractive and resulting in wage moderation and a fall in unemployment. However, the new jobs have a rather low labour productivity, so production growth remains negative. (*Copies of the Memorandum are available from: Hageman Verpakkers, Postbox 281, 2700 AG Zoetermeer, Netherlands*).

What Women Want. Lesley Abdela (ed) in association with The Body Shop, 1994. Available from the Fawcett Society, 40-46 Harleyford Road, London SE11 5AY, 112 pp, price \$4. Prepared as an easy guide for Members of Parliament, central and local government, journalists, researchers, trade unionists, TV and radio editors, activists, opinion leaders, employers and many others, *What Women Want* is based on seventy talks (of ten minutes each) given during the first-ever House of Commons Week On Women (in February 1993). The messages reprinted here come from women in the front line of women’s battles, and include three with a CI ring:

- *The entire tax and benefits system is an outdated jalousy that discriminates against women and needs replacing*
- *Ditto the pensions system*
- *We need a brand new woman-friendly ‘Beveridge Plan’ with pension schemes, taxes and benefits that suit women’s lives as well as men’s.*

State Pensions for Today and Tomorrow, A.B. Atkinson. Discussion Paper WSP/104, STICERD, London School of Economics, Houghton Street, London WC2A 2AE, 1994, 32pp, June 1994. This paper is a revised version of the David Hobman Annual Lecture, presented at King’s College London in June 1994. First, the author shows that the present structure of pension provision in the UK does not guarantee an adequate minimum living standard in old age; then he outlines an alternative system. Reform, says Atkinson, is quite possible and his proposal is not the only one. Unfortunately most

proposals would take many years to build up and today’s pensioners cannot wait. The details of Professor Atkinson’s scheme are discussed in greater detail in his interview with Susan Raven elsewhere in this Bulletin.

Escaping from Dependence. Part-time workers and the self-employed: the role of social security. Joan C. Brown. IPPR, 30-32 Southampton Street, London WC2E 7RA, 55 pp, ISBN 1 872 452 93 0, price £5. Although this report is by no means intended as ammunition for a Citizen’s Income, its carefully researched findings point unerringly in that direction by highlighting the gaps in existing provisions and the complexities involved in adapting them to suit current labour-market requirements.

Unfair Shares. The effects of widening income differences on the welfare of the young. Richard G. Wilkinson. Barnardos, Tanners Lane, Barkingside, Ilford, Essex, IG6 1QG, 1994, 78 pp, ISBN 0 902046 16 0, price £5.99. While most people have enjoyed income increases since the early 1980s, the poorest have suffered decreases. At the same time, social indicators like crime, child abuse, suicide, reading standards and school expulsions have also taken a turn for the worse. Are these trends connected? Richard Wilkinson of the Trafford Centre for Medical Research, University of Sussex, argues that relative poverty has absolute effects and is a much more destructive social force than is generally recognised.

Designed for the Poor — Poorer by Design? The effects of the 1986 Social Security Act on family incomes. Martin Evans, David Piachaud, Holly Sutherland, Discussion Paper WSP / 105, STICERD, London School of Economics, Houghton Street, London WC2A 2AE, July 1994, 104 pp. Excellent analysis of the distributional and other effects of changes to means-tested benefits introduced since April 1988. As foreseen, the immediate effect was to churn incomes around within the poorest two-fifths of the population. Additionally, major questions now arise about the sustainability of underlying income trends, not least the future of a safety net which is no longer guaranteed and the indirect effects of increased public expenditure by other Government departments (e.g. the social services and the Home Office) when poverty is no longer relieved, let alone prevented.

Analysis of Basic Income Schemes for Ireland. Tim Callan, Cathal O’Donoghue and Ciarán O’Neill, Economic & Social Research Institute, Policy Research Series, Paper No. 21, September 1994, 85 pp, ISBN 0 7070 0151 X. This report results from research commissioned by Ireland’s Department of Social Welfare on behalf of the Expert Working Group on Integration of the Income Tax and Social Welfare Systems, a major review now in progress. The report uses the ESRI tax-benefit model to assess the costs, redistributive and incentive implications of alternative BI schemes. Assuming BIs equivalent to Ireland’s lowest existing social welfare rates (cf social assistance, or UK income support), the results indicate an income tax rate on all other income of about 68% for a fully individualised BI scheme and 63% for a family-based BI. Assuming BIs of £21 a week (in 1987), tax rates can remain largely unchanged, and the redistributive effects are smaller. With tax rates above 60%, replacement ratios remain too high to give rise to the hoped for dynamic effects on employment. Other options,

which the authors say deserve careful scrutiny, include extensions of the income tax base, increases in other taxes, cuts in government expenditure, lower BI amounts, and the "deployment of the fruits of economic growth". *Partial BIs* could be financed at tax rates close to those currently in operation, and could be favourable, especially if measured against a baseline which takes account of the low take-up of Ireland's *family income supplement* (cf the UK's family credit). For the time being, however, the options with the biggest immediate impact on work incentives and poverty are those involving an increase in child benefit to £75 a month (just over £17 a week). This is a most interesting report, which as the authors say "brings the impact of the budget constraint into sharp focus".

Towards Full Citizenship for All. A review of aspects of the current socio-economic situation with recommendations for the 1994 Budget and the new national programme to follow PESP. Justice Commission, Conference of Major Religious Superiors of Ireland, Milltown Park, Dublin 6, 1994, 83 pp, ISBN 1 87 2335 225. The overall purpose of the policy recommendations in this document is to ensure full citizenship for all the people in Ireland. Under *Poverty and Exclusion* the objective is to "eliminate poverty and exclusion in Irish Society" and the first item on the list of policy initiatives is the introduction of a basic income system which would guarantee all citizens an income at least equivalent to the poverty line. Under *Social Welfare*, the last item is to *integrate the tax and social welfare systems to produce a basic framework to ensure all receive an adequate basic income*.

Towards an Adequate Income for All. Brigid Reynolds and Sean Healy (eds), Justice Commission of the Conference of Religious of Ireland, pp 137, 1994, ISBN 1 8723 3525 X, IR£5. Conference report. See **At Home and Abroad**.

Capital and the Kingdom. Theological Ethics and Economic Order. Timothy Gorringer, Orbis/SPCK Books, pp 200, 1994, ISBN 02 8104 7731, hbk £15. Here is a book that does not beat about the bush. Its author, the Rev Timothy Gorringer, is Dean of St John's College, Oxford. Basic Income, he says, should be payable as of right, instead of existing benefits and income tax reliefs. See **Book Review**, by Stanley Booth-Clibborn.

Major Douglas's Proposals for a National Dividend: a logical successor to the wage. Brian Burkitt and Frances Hutchinson, in *The Social Creditor* Vol. 73 No. 5, Sept-Oct 1994, business address: K.R.P. Publications Ltd, 76 Constitution Street, Edinburgh EH16 6LR. This is the paper (first published in the *International Journal of Social Economics*, Vol 21, No. 1, 1994, MCB University Press, Bradford, UK) to which Pat Conaty of the Birmingham Settlement referred in his article *Citizen's Income and renewable money* in *CI Bulletin* No. 18. Whether or not readers agree with all its content, it provides important background reading for anyone interested in Citizen's Income.

Social Justice. Strategies for National Renewal. Report of the Commission on Social Justice, Vintage, 1994, 418 pp, ISBN 0 09 951141 X, pbk £6.99. The Commission on Social Justice was set up in December 1992 (the fiftieth anniversary of the Beveridge Report)

by the late Rt Hon John Smith MP, leader of the British Labour Party, with the following terms of reference:

- To consider the principles of social justice and their application to the economic well-being of individuals and the community.
- To examine the relationship between social justice and other goals, including economic competitiveness and prosperity.
- To probe the changes in social and economic life over the last fifty years, and the failure of public policy to reflect them adequately; and to survey the changes that are likely in the foreseeable future, and the demands they will place on government.
- To analyse public policies, particularly in the fields of employment, taxation and social welfare, which could enable every individual to live free from want and to enjoy the fullest possible social and economic opportunities.
- And to examine the contribution which such policies could make to the creation of a fairer and more just society.

For readers of this Bulletin, the most relevant pages are 261-265. For representative feedback, see elsewhere in this Bulletin: Jane Millar's review of the Report, Meghnad Desai's article, Richard Clements' 'Director's View', Susan Raven's interviews with Tony Atkinson and Penelope Leach, and Michael Young's and Ian Aitken's comments in the national press. Hardly a vote of confidence ...

Family fortunes. Pressures on parents and children in the 1990s. Sue Middleton, Karl Ashworth and Robert Walker, CPAG, 1-5 Bath Street, London EC1V 9PY, pp 159, ISBN 0 946744 68 8, pbk £7.95. Here is the first UK formulation of a poverty line for children, using a 'minimum budget standard' drawn up and agreed by mothers from all walks of life. Like the work of the Family Budget Unit (See Autumn Yu, *How much is enough? CI and family budget standards* in *CI Bulletin* No. 17), research of this sort is essential background reading for readers interested in CIs at levels sufficient to prevent poverty.

Newsletter of the Basic Income European Network (BIEN), No 20. Published three times a year, invaluable information about past and future events and publications relevant to Citizen's Income and Basic Income in Europe. Issue No 20, published just before Christmas, announces the retirement of Philippe Van Parijs (University of Louvain-la-Neuve, Belgium) as editor and his replacement by David Purdy (Department of Social Policy, University of Manchester, M13 9PL). Subscription for 1995-96 is £20, payable through the Citizen's Income Study Centre (UK contributors only).

Extracts from the National Press

Gradually the debate about Citizen's Income is being reported in the media. Here are three recent examples.

Michael Young, in the Guardian, 25 October 1994, gives his reactions to the Borrie Report:

Gordon Borrie claims his Report represents a revolution in Beveridge's welfare state. But what is the great idea behind Borrie? The great idea is Beveridge. The Commission is proposing to end means tests, and the poverty traps they generate, by relying on national Insurance, as proposed by Beveridge 50 years ago. The Report's arguments are the same as his: the only difference is the proposal to bring in part-timers and the self-employed.

Borrie, in the name of a revolution which isn't, rejects the really revolutionary idea of a Citizen's Income, or rather havers over it, leaving us with a modest version of it, 'if it could be afforded'. I hope Tony Blair (who said in an appreciative speech that the Labour Party would look carefully at all the Borrie proposals) will look again at Citizen's Income before rejecting it. That would be a revolution, and an advance on Beveridge, rather than a retuning of the old scheme, now so tattered.

Michael Young (Lord Young of Dartington) was author of Labour's 1945 manifesto.

Ian Aitken, in New Statesman & Society, 11 November 1994, commenting upon the Borrie Commission Report and Michael Young's reactions to it:

... Lord Young's overriding complaint against Borrie is that it rejects what he and many other experts in welfare economics have long seen as the only truly revolutionary answer to the crisis in social security, namely 'citizen's income'. In fact, as Young admits, the report does not quite reject the concept out of hand, but wavers about it. Its argument seems to be that the basic idea may be a good one, but that the people aren't yet ready for anything quite so radical. The implication is that if the tinkering which the commission recommends turns out to be a flop, and if the public mood also shows signs of a change, then maybe something like CI should be given a whirl after all.

By now, some readers must be wondering what CI is, since it isn't exactly a household name. *In essence, it amounts to a basic income paid by the state to every man, woman and child as a right of citizenship, replacing most of the existing tangle of means-tested benefits.* Any income earned on top of this basic sum would be taxable, but earning it would not affect the amount received from the state. The notorious Catch-22 of the existing system, which makes it impossible for

unemployed workers to accept low-paid jobs without losing benefits, would end at a stroke. So too would the so-called poverty trap, which subjects working families on income support to grotesque marginal taxation rates of up to 97p in the pound. But a scarcely less appealing advantage is that the change would render most of the bureaucracy associated with the existing labyrinthine social security system totally pointless. The costly, demeaning and illiberal machinery needed to assess claims, check them, pay them, and then hunt down the inevitable fraudsters, would immediately become redundant. This alone would save around 3p on the standard rate of tax.

Not that a 3p saving would cover the cost of introducing a full-scale CI. How much it would cost would obviously depend on how high the guaranteed income was set. The Citizen's Income Study Centre modestly proposes that the initial, purely transitional amount should be as low as £15 a week for an adult, £12 for a child and something significantly more for pensioners. Many crucial means-tested benefits like the dole would have to survive at first, so as to ensure that no one suffered a cut in income. On the tax side, National Insurance contributions would be merged with income tax, and a new top-rate tax band would be created for those earning more than £60,000. . . And here, of course, we come to the nub of the matter. For the modern Labour Party has been traumatised by a conviction that recent election defeats are due exclusively to successful Tory propaganda labelling Labour as the party of high taxation. . . And it is clear that the tax message was not lost on the Borrie Commission, either. It argues that a change as radical as a fully fledged CI would have to be backed by a broad-based public consensus. But, it adds, there is as yet no sign of any such consensus. It blames this regrettable fact on the alarming tax implications and partly on a natural public hostility to the idea of paying taxes simply in order to give away (in the fashionable phrase) 'something for nothing'.

And one has to concede that the commission is quite probably right on both counts. But even so, it is surely proper to ask whether Sir Gordon and his colleagues were actually invited by the late John Smith to look for and identify a public consensus. My impression is that they were asked to find the best answers to the questions within their remit, and to commend them to the public as the commission's contribution towards creating a consensus. In my old-fashioned view, it is the job of the Labour Party and not the commission to decide what is and is not a politically saleable commodity.

I conclude by quoting in full one of the questions to the commission by John Smith, when he drew up its terms of reference in 1992. It reads:

To analyse public policies, particularly in the fields of employment, taxation and social welfare, which would enable every individual to live free from want and to enjoy the fullest possible social and economic opportunities.

Not a word about consensus there. But it is a sentence that seems to me to encapsulate a precise and comprehensive description of the aims and objectives of citizen's income. If there is no consensus for it yet, the time to start building one is now.

Tony Levene, in Scotland on Sunday, 27 November 1994, A fair tax and benefits system is not a pipe dream.

... Governments must find a policy somewhere on the continuum that runs between ultra high taxes and high public benefits and low taxes with minimal spending on health, education and infrastructure. Currently, the lower end of this range is modish. Advocates of Citizen's Income (CI) do not shy away from higher taxes because they will be used to pay a fixed sum to every woman, man and child legally resident, but irrespective of social class, employment status and age. This amount would involve the replacement of all the present structure of tax reliefs and state benefits. Everyone would have this cash as of right just as every parent now receives untaxed

child benefit at a standard rate whatever her or his earnings level.

Sickness, unemployment, disability and state pension benefits would all disappear to be subsumed into the new payment. And that would mean the end of the poverty trap which often prevents the less-well off taking a job as the marginal gain for a week's work may be very little once the loss of benefits is considered ... With CI what you earn is yours to keep — less taxation which will claw most of the basic sum back from the best-off ... But there is more to CI than just cash. By removing the benefits bureaucracy, it would free people to train, work or earn without worrying about either losing reliefs or benefits ... The Conservative Party came close 20 years ago to amalgamating benefits and taxation structures. Then, for 'presentational reasons', they moved away ... For all the headline talk of 20% and 25% tax rates, the reality is that most pay at 35%

VIEWPOINT

Thoughts from Capri: Basic income as a global idea

Gunnar Adler-Karlsson

In Europe the official unemployment figures have been around 10% for a decade. Inequalities in income distribution in both Europe and the United States, especially the latter, have been growing. In trying to understand why, I have used the following metaphor:

Take a glass vessel. Through it you can see the mixed contents. At the bottom there is a layer of black sand, at the top a layer of green olive oil and in between there is clear water. Imagine another, similar vessel, with the same contents, in the same proportions. The only difference is that it is ten times bigger. Now, take the smaller vessel, pour the contents into the larger one, stir them well and leave for a while.

What happens? The heavy black sand — the unfortunate, stupid, uneducated, or simply tired people — will inevitably fall to the bottom. The lucky, clever, highly educated, young and aggressive will, as inevitably, rise to the top. The gap between top and bottom is much wider in the bigger vessel. And if it were placed below the smaller one, the sand from the small vessel would fall to a lower level than before.

This analogy, I suggest, illustrates the inevitable distributional results of the global economic integration now taking place. The weakest groups in our western labour markets will become uncompetitive with cheaper substitutes from the east and the south. When economic integration is combined with technological changes, the West seems doomed to an accelerating rate of creative destruction, falling wages and enduring unemployment. The heavy sand will tend to fall further than before, while the strong, smart and highly mobile people, who

are capable of profiting in markets all over the world, will rise like the light oil to ever higher levels of income.

One of the many implications of this view of humanity's present condition is that a basic or citizen's income can no longer be discussed as a simple problem for a closed economy in a small glass, standing on a high shelf. If it is to be discussed at all, it must be seen as a global problem, in the big vessel, and the first question is whether there is a level below which the sand should not be permitted to fall, and if so which level the oil-men are willing to pay for.

Let me also add that in my view most discussions couched in terms of 'rights', 'social contracts' or similar phrases are rubbish, betraying an infatuation with nice words. Since the fall of communism we are back in a situation where *relations between rich and poor, including any basic income, will be based less on justice than on mercy*. With these two starting points, what can possibly be said about a global basic income?

China has long had a strongly coercive one-child population policy. So much so that some calculations indicate that about 700,000 girls a year were exposed to infanticide during the 1980s. In spite of this, the Chinese Ministry of Labour recently estimated that by the year 2000 China will have some 268 million unemployed. The combined figures for Bangladesh, India and Pakistan are unlikely to be smaller. All these people will need a basic income. Considering the United States welfare system and the recent debate there about health insurance, is it likely that the Americans, with a population slightly smaller than the anticipated Chinese unemployment figure, will be willing to guarantee a basic income to the Chinese? Or that Europe will take on the South Asian sub-continent? Should we therefore, straight away rule out any discussion of an international welfare policy? Or should we look at it from a different perspective?

One world or none

For some years now, I have been toying with a 'monotheistic' theory of power which tries to explain the long-run behaviour of mankind since the dawn of agriculture. Despite present tendencies towards disintegration, these studies have convinced me that mankind is moving towards *one united world or NONE*. As one who prefers the former alternative, I am trying

to envisage how mankind could be unified with a minimum of violence and warfare. This is where some limited form of basic income might fit in.

In one world, we need one state, that is to say one *de facto* government. The basic definition of a state is the agent with a monopoly of the use of physical violence. Today the nuclear superpowers are trying to monopolise the availability of atomic weapons. That, essentially, is what the Iraq war, the North Korean quarrel, the London Supplier Club and the US-Russian cooperation are about. In 1995 the Non-Proliferation Agreement is to be rewritten. Some of the poorer nations have already signalled strong objections to the *de facto* monopoly of the big ones. But unless we believe in 'mutually assured destruction', we from the weaker nations should be pleased if the Americans and the Russians were able to create a monopoly of atomic weapons, even if it did encroach upon our own sovereignty. Any such process, however, is likely to require a *quid pro quo*: something desired by the small nations that is in the interests of the big ones. Could it be some version of a basic income?

Basic Income in exchange for world peace

We have already seen attempts at what honest people would call blackmail. Ukraine's politicians wanted American money for handing back to the Russians their old nukes. Kazakhstan made similar attempts. North Korea is demanding a brand new Western reactor in exchange for closing down God knows what. The suggestion I would like to make is that some kind of basic income for truly needy groups in the poor nations — financed by the rich nations — might be useful in this context. It would be a positive *quid pro quo* in exchange for giving up nuclear sovereignty and it might even help to legitimise the emergence of world government, at least in the nuclear field. This idea might, for instance, apply to South Africa, which at one time came very close to atomic weapons. It might even be useful in Nigeria, where the rich élite might be tempted to buy a few ex-Soviet nuclear scientists, to create some horror-weapons, unless they are peacefully prevented from doing so. It is unrealistic to believe that the West would be able to finance a BI for all the citizens of the poorer nations, or even for all their unemployed. There are, however, three kinds of people for whom good governments have always taken responsibility: orphans, people with disabilities and older people. This is where we might start.

In view of the failures of most large-scale public attempts to heal the wounds of society in this century, it might be wise to be wary of big new, international social welfare institutions. I could envisage, however, an international BI fund administered by honest bankers (if that is not a contradiction in terms), into which those rich nations who support the non-proliferation idea paid money for some worthy purpose. There need not be enormous amounts to do some good. All of Africa has less than 2.5% of Gross World Product, according to figures produced by the Bank for International Settlements.¹ Half of 1% of the Western share of Gross World Produce should be sufficient to guarantee a decent food standard for Africa.

The governments of those poor nations which give up all aspirations to nuclear weapons should be entitled to draw upon this fund. Perhaps it could be used to defuse not only the A-bomb but also the P-bomb, or population explosion.

A citizen's pension for the developing nations

It is well established that one reason for having many children is concern for one's old age. In order to have two boys to take care of you, you need three, because one is likely to die young. In order to get three boys, statistically you will also need three girls, or six children, which might be too much. Might it be possible to arrange the BI fund as a pension scheme, whereby those in participating poor nations would be guaranteed a decent old age pension, providing they only had two children; those with three children would get half a pension; and those with four or more children would get nothing, on the grounds that their extra children would be able to look after them.

Of course this idea requires further study, but if it succeeded it would help to defuse both the A-bomb and the P-bomb, which wouldn't be bad for the survival of our children as well as of our species.

Professor Adler-Karlsson is a social scientist and co-founder with his wife of the Capri Institute for International Social Philosophy. In July 1995 the Institute will host a seminar to discuss the politics of environment, starting from the assumption that ecological restrictions forbid further population growth or higher living standards. Further information is available from the Capri Institute, CP 79, I-80071 Anacapri, Italy. Fax: 081-8373314. Tel: 081-8373034.

Note

1. The Bank for International Settlements (BIS) in Basel is the most important monetary institution in the world, more so than the International Monetary Fund. It is at the BIS that the central bankers of the Group of Ten meet once a month to decide upon international monetary policy. They are mainly responsible for the high real interest rates of the 1980s and hence for the debt problems of the Third World and world-wide unemployment. They produce a fabulously well informed annual report.

Letter to the Editor

We welcome your letters, queries and comments, but please restrict them to one side of A4, and type them if possible.

From Alan Leadbetter

It was good to receive issue No.18 of Citizen's Income Bulletin. It is a good read. At first I wondered whether articles by James Robertson, Pat Conaty and Charles Handy belonged. But after reading them I think it is a good idea to have articles which help dialogue with those who have other views. Altogether I like the Bulletin's mix of solid analysis, news and reviews, dialogue with members of political parties (Sir William Goodhart and Austin Mitchell), and general articles. It fulfills a need. Keep up the good work.

Yours faithfully,
Alan Leadbetter,
18 Madison Street,
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ST6 5HT

FUTURE OF THE BULLETIN

The first issue of the Bulletin was produced in 1984, under the title *Basic Income Research Group Bulletin*. The first two issues were in tabloid form and it moved to its present format with Bulletin No 3, published in Spring 1985. The new title *Citizen's Income Bulletin* was adopted with issue No 16, published in July 1993.

In its lifetime the Bulletin has become the leading exponent of the concept of basic income or universal benefit, as Citizen's Income (CI) is also known. Under the editorship of Hermione Parker it has been the vehicle for extensive research into the concept of a Citizen's Income as well as the medium for articles by leading figures from the academic, political and industrial fields, examining the implications of Citizen's Income in their respective spheres.

For those who work in social policy, the Bulletin is now essential reading. A list of all Bulletins still in print with details of articles and authors in each issue, are obtainable from this office. Some articles trace the CI debate in other member States of the European Union. In some cases only photocopies of particular articles are available.

Work is now being undertaken to widen the scope of the Bulletin. Its circulation to those most concerned with developments in the social policy area is being extended. And for the first time it is available for commercial advertising.

For further details, please call or write to RICHARD CLEMENTS, Managing Editor, Citizen's Income Bulletin, St Philips Building, Sheffield Street, London WC2A 2EX. Telephone: 0171 955 7453. Fax: 0171 955 7534

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Key points of citizen's income

- Citizen's Income isn't about increasing benefit expenditure, it's about rearranging it, to the advantage of the have-nots.
- Citizen's Income converts tax-free reliefs into tax-free benefits and would re-distribute money downwards, not upwards.
- Men at the bottom of the income distribution, or at the edges of the labour market, would benefit in the same way as low-income women.
- Citizen's Income is designed to be gender neutral.

”

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