

CITIZEN'S INCOME

BULLETIN 21

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‘*The major political and social crime will not be implementing policies which turn out to be wrong. It will be pretending we do not need new sets of policies, and allowing democracy to slip away by default.* **’**

Barrie Sherman and Phil Judkins, in
Licensed to Work,
Cassell, 1995

LABOUR MARKET EFFECTS
OF CI

EARNINGS TOP-UP OR
BASIC INCOME AND
A MINIMUM WAGE

LORD VINSON TALKS
TO SUSAN RAVEN

CITIZENS' PENSIONS
AND WOMEN

A PARTIAL BASIC INCOME
FOR BELGIUM

CITIZEN'S INCOME DEFINED

*For every citizen the inalienable right
Regardless of age, sex, race, creed, labour-market or marital status
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Editorial

Thinking the unthinkable

Last summer, in Bulletin No 20, we wrote that Citizen's Income (CI) seemed poised to enter the mainstream of UK political debate. Six months later there is just a chance that 1995 will go down as the year when British newspapers began to take CI seriously. If so, first prize will go to *The Independent*, for its article *Think the unthinkable, Mr Smith* (9 November, 1995) which included CI as one of four reform options for New Labour to take seriously (See **Books and Papers Received**). Although the odds against a full CI (enough to live on) are heavy, a partial scheme — said the '*Indy*' — could emerge.

CI supporters can take heart but not overly so, for other events point at obstacles in the way. The biggest obstacles are not the ones readers might expect — for instance that CI cannot be afforded. Not at all! As Abigail Thomas explains in this Bulletin, the biggest obstacles are "ignorance" and "more important priorities". And what makes this statement of particular interest is that it comes from the grass roots, unadulterated by politics or self interest — a straightforward statement of fact:

"When you have no job and nowhere to live," Abigail Thomas writes, "or your children are regularly sent home from school because of the poor state of the buildings, or the local hospital is about to close, *where should you start?*" (See **Viewpoint**)

Ignorance can be overcome, especially with support from the media, but priorities are a different kettle of fish. During the past seventeen years the British electorate has been subjected to such a torrent of propaganda against the welfare state that younger voters cannot imagine what life would be like in a country which gave priority to social solidarity. If they think about social solidarity at all, they think about it as an optional extra, something that only 'rich' countries can afford. Yet for those old enough to remember when jobs were (relatively) secure and children could play safely in the streets, social solidarity is the key to most things, including prosperity. It won the war and for a few decades it won the peace. Then it was replaced by market forces and society is paying the price. So is the economy.

Anyone can rubbish CI. All they need is a computer print-out which says it would cost too much. The novelty of the *Independent* article is that its author has not been fobbed off in that way. The article began with a report that Tony Blair had instructed Chris Smith (the Labour leader's new social security spokesman) to "think the unthinkable" and search for a modernised social security system, including the possibility of a Citizen's Income. At first glance it seemed good news, but why — given that CI has far more to do with tax reform than social security reform — did Tony Blair pass the CI file to Chris Smith instead of Gordon Brown, his Treasury spokesman? When Sir Edward Heath's government published their Green Paper on Tax-Credits in 1972, the foreword to it was signed first by the Chancellor of the Exchequer and then by the Secretary of State for Social Services.

CI and tax credits are similar. Instead of income tax allowances, which are valueless to people without the income to set against them, every legal resident receives

a tax credit/CI which converts into cash for people without the income to set against it. The Department of Social Security (DSS) is involved because the CIs reduce dependency on DSS benefits, but it is not the prime mover.

In the circumstances, Chris Smith's first priority should have been carefully structured consultations with Gordon Brown. But worse was to come. For within no time at all, while Chris Smith was still ploughing his way through the CI literature, up pops Gordon Brown with a formal commitment that a future Labour government will cut the starting rate of income tax to 15% or even 10%. With this commitment Brown has virtually ruled out CI — firstly, because a 15% tax rate would spread the gains from CI too widely, and secondly because it would make it harder to finance worthwhile CIs.

It is insufficiently understood that living standards at the bottom depend as much on what the state takes away in taxes as on what it pays out in benefit. Until the media spell this out, the debate about the future of the welfare state will remain sterile, the most important issues will be fudged, and the present (often hidden) redistribution of income from poor to rich will continue.

In Beveridge's time people either paid taxes or received benefits — but not any more. By 1993 the bottom fifth of non-retired households paid 40% of their incomes in tax, compared with 35% paid by the top fifth. That is why social security expenditure is out of control. Although no panacea, CI is the only solution currently available which offers hope of lasting success. Moreover, allowing that the study by Hermione Parker and Holly Sutherland in this Bulletin is correct, CI's potential would be strengthened if it were introduced at the same time as a national minimum wage. In 1996-97 a minimum wage of £4 a hour plus CIs of £17.75 would truncate the poverty trap at the bottom of the earnings distribution while also reducing the earnings levels at which families need means-tested benefits.

Two further issues to which this Bulletin returns are unemployment and pensions. The lead article is of particular interest because Barrie Sherman and Phil Judkins have connections with the trade union movement. When they say that the work ethic needs updating — to include unpaid as well as paid work — the Report of the Borrie Commission looks decidedly old hat. Since last summer the debate on pensions has hotbed up, with publications by Peter Townsend and Ian Walker calling for higher national insurance pensions; and in January 1996 the report of the Retirement Income Inquiry, *Pensions: 2000 and Beyond*, calling for a two-tier pension system, with compulsory minimum contributions to funded schemes and eventual replacement of the state basic pension by an income-tested 'Assured Pension'. None of this will be welcome reading to CI supporters, most of whom would prefer a first tier composed of residence-based citizens' pensions.

Finally we wish to draw attention to a conference of the Basic Income European Network (BIEN) in Vienna next September (further details are on the outside back cover of this Bulletin); and to a one-day workshop organised around Philippe Van Parijs's book *Real Freedom for All*, at the University of Warwick on 4 May. For information contact Andrew Reeve or Andrew Williams, University of Warwick, Department of Philosophy and Politics, Coventry CV4 7AL, fax 01203 524 221.

Labour market effects of CI: A trade union standpoint

Barrie Sherman and Phil Judkins

*In this short article the authors of **Licensed to Work** summarise the labour-market case for a Citizen's Income (CI). They base their arguments primarily on a reconsideration of the work ethic and a redefinition of work.*

In the mature industrialised countries an estimated 35 million people are officially unemployed, a further 13 million are 'non-employed' but available and willing to become employed,¹ and hundreds of millions are in jobs that are insecure. Although the figures are imprecise, the personal and social tragedies behind them are quite the opposite. For in today's industrial societies employment provides more than money — it gives a sense of purpose to people's lives and is desirable in its own right.

To tackle the problem of mass unemployment, it is necessary to consider the world as it is, not as it used to be, nor as we would like it to be. Everyone, be they politicians, religious leaders, industrialists, trade unionists, bankers, teachers, part-time workers, aid-workers, husbands, wives, partners, will have to accept major changes. Attitudes will have to change, vocabularies will have to change, and most of all expectations will have to change. We must never forget that the first industrial revolution was a time of shattered hopes as well as promises fulfilled and this one is unlikely to be different. That is not to say that nothing can be done. But it does mean that recent history is a poor guide to what needs to be done.

Work ethic, employment ethic, usefulness ethic

One of the first priorities for change is the work ethic, nor will it be the first time that it has had to change. As a result of the enclosure movement and the labour-intensive production methods of the industrial revolution, the pre-industrial work ethic became an *employment ethic*. Today, as prevailing technologies become increasingly capital intensive and the need for labour diminishes, the employment ethic needs to revert to the pre-industrial *usefulness ethic*.

What is so wonderful about employment anyway? It keeps people away from their children, confines them in shops, factories and offices when they are young and full of energy, and provides a large block of leisure time only when they are too old to enjoy it. It is not as if we need employment as a spur to social interaction. There was plenty of social activity before the industrial revolution. In fact employment is almost certainly responsible for the destruction of many of those earlier

forums of social contact which were built around communities and families.

For all its disadvantages, people have become hooked on employment, if only for the money. Shifting the ethic back towards unpaid as well as paid work will be a massive task, but it must be done. Politicians are in a particularly difficult position. When in opposition they accuse governments of incompetence, but when in power they soon realise that unemployment is not correctible. It can be ameliorated, but only temporarily.

It is here that religion, particularly in those who aspire to hold the moral high ground, has a duty to help amend the present work ethic. For if employment is central to modern existence and suddenly becomes unavailable, people will ask: *Why are we here? What are we here for?* And any answer that considers human dignity and worth, let alone a higher being, must downgrade the supremacy of paid employment: which is tantamount to a return to the original work ethic.

Financial security is the key

Returning to the work ethic of the centuries before the industrial revolution is an essential conversion. It would have three ingredients:

- Acceptance that self-fulfilment does not require paid employment
- Removal of the sense of guilt from leisure activities
- Financial security

The old work ethic was about being useful to others and to yourself. Even today the world is full of work, as opposed to employment. All of us do it — unconsciously — day in and day out. We dig gardens, help people cross busy roads, stop to chat with a *Big Issue* seller, escort children to school, help with their homework or do the washing up. But it is not fulfilling in the way employment fulfills, and this is not entirely a matter of money, it is a matter of what we as human beings think we are here for — the reason for our existence.

The paradox is that when unpaid work is undertaken in retirement, or during vacation, or after a day's work, it is totally fulfilling and acceptable. The profile of 'voluntary' workers is skewed towards retired people and towards women whose children have left home, and who were never in employment after having a family. Few unemployed people do voluntary work.

A return to the original work ethic would blur the distinctions between work, employment and leisure. No activity would feel inappropriate because of the time of the week, or because of other activities that had or had not been undertaken during that week. There is a strand of public opinion which appears to think that unemployed people should not enjoy themselves. Spending on cigarettes or alcohol is described as fecklessness; going on holiday becomes a mortal sin. There are also signs that the unemployed feel guilty themselves: guilty because they don't have a job (even when it's no fault of their own) and guilty if they are not in public mourning for their lost lives. Yet such feelings — engineered by the employment ethic — are wholly negative and unhelpful. Only a return to the pre-industrial work ethic will allow people to realise that life can be enjoyable without paid employment.

The problem is that this entire discussion is irrelevant without settling the matter of personal finances. People must feel financially secure in order to enjoy their leisure and give their time and expertise to help others. And that is where Citizen's Income (CI) comes in.

Citizen's Income

In 1994, the Commission on Social Justice produced a report on precisely this matter,² but based its recommendations on the assumption that employment practices would remain broadly unchanged, and that unemployment could be banished. That is unlikely. On the contrary, it is more probable that there will be continuing increases in part-time and temporary jobs, and the main trick for governments will be to arrange financial stability for people who may or may not be in employment in any one week, month or year: something the present social security system cannot do without widespread poverty trap effects.

The solution is some form of Citizen's Income (CI), introduced gradually. CI is relevant to today's problems, as well as tomorrow's. That is why increasing numbers of mainstream economists and sociologists are producing papers in favour of it. The CI could be paid as a single sum or in several parts, it could replace all or some of existing social security benefits, it could be taxed wholly or in part, or it could be left untaxed. It could be phased in or implemented in one fell swoop. It could attempt to provide a living 'income' or act as a top-up. In short it is a flexible means of linking less than full-time or less than permanent employment with individual financial security.

The only way in which society would be able to afford a full CI (defined as enough to live on) would be either to discover massive oil deposits and become a senior OPEC member, or to take the high-investment, high value-added, high-technology route. This would provide the wealth with which to finance the CIs, but would also increase unemployment and non-employment. A full CI would in theory provide every legal resident (man, woman or child) with an unconditional right to a subsistence level income, replacing existing income tax allowances and social security benefits. It would be financial security of the highest order. Whether it would remove the incentive to take employment is debatable, but the smaller the amount of employment available, the less important this becomes. In any event it is possible to use variants of the scheme which allow CI to be payable only to people who make themselves available for employment, approved voluntary work, caring duties, or studies.

Other CI options include a basic income guarantee (BIG), which would pay adult CIs equal to half the rate of income support for a married couple, plus an income-tested housing benefit and householder's allowance;³ and a universal hourly benefit which would operate with a minimum wage, and would also subdivide the payment on an hourly basis.⁴ It would be interesting to see what level of benefits could be payable with a more targeted or negative income tax approach. Either way Citizen's Income is an idea whose time might be coming. With increasing academic support, and politicians who seek a welfare system capable of fitting an age they barely understand, it stands out as a flexible solution to

lower-waged, job-sharing, part-time employment as well as high unemployment and increasingly early retirement.

However there are two problems associated with it:

- It would cost money at a time when governments will have little to spare.
- It labours under the grave disadvantage of appearing to devalue the concept of employment.

Opposition will come from those who belabour benefit recipients as 'scroungers' and from trade unions who will claim that a CI would subsidise bad employers. This is an example of that well-known phenomenon of politics when left and right meet on the dark side of political debate. Nevertheless any sensible politician should be exploring the different CI mechanisms.

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Phil Judkins has written and broadcast extensively on technology in industry.

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Earnings Top-up or Basic Income and a minimum wage

Hermione Parker and
Holly Sutherland

*In July 1995, the Department of Social Security published its Consultation Paper **Piloting change in Social Security: Helping people into work**,¹ in which it invited the public to respond to proposals for a new means-tested benefit aimed at lower-paid workers without children. Called the Earnings Top-up (ETU), it resembles existing Family Credit, except that the latter is restricted to lower-paid workers with children. If the ETU is introduced, Britain will effectively have a work-tested negative income tax. The incentive for employers to economise on payroll will intensify, and the case for a national minimum wage will be strengthened. Here the authors compare three reform options, including the simultaneous introduction of small, transitional Basic Incomes (TBIs) and a national minimum wage. The indicators are that TBIs of £17.75, together with a minimum wage of £4 an hour, would be a more effective way of improving work incentives at the bottom of the earnings distribution than either the ETU or a TBI on its own.*

In many Western democracies, the post-war welfare state looks increasingly untenable. Even in boom times unemployment remains high and the available jobs are either highly skilled or insecure and badly paid. Governments anxious to get their populations back to work have little room for manoeuvre. To make the jobs that are available more financially attractive, they can reduce living standards on the dole, or they can increase net incomes from work, or they can do both. But there are narrow limits to the benefit cuts they can inflict if they wish to remain in office and certain governments are already close to those limits.

In Britain, the problem is aggravated by the tax and benefit policies of the past fifteen years, including changes in tax incidence at the expense of the lower paid and the falling away of child benefit (especially for large families). Since most out-of-work benefits have already been cut to the bone, the most politically viable option is to increase net incomes from work, but this too is fraught with difficulties because living standards at the bottom are a function of taxes, benefits and infrastructure (housing, childcare and transport costs) as well as wages. So at least five government departments are involved.

Different benefits have different behavioural effects and those which look least expensive in the short-term are seldom the most cost-effective in the long-term. Child benefit is sometimes regarded as extravagant, but its long-term effects are good, because families can build upon it through paid work. Using simulation models that do not measure behavioural effects, Family Credit and the proposed ETU look cost-effective, but in practice the

Parliamentary Written Answer, Hansard 26 October 1995, c 798:

Mr Betts (Sheffield, Attercliffe): *What estimates has he made of the effect on the level of expenditure on specific benefits, if a national minimum wage was introduced at (a) £3.50 per hour, (b) £4 per hour and (c) £4.50 per hour for all employees aged 18 years and over.*

Mr Roger Evans (Parliamentary Under-Secretary of State Department of Social Security): *No assessment has been made.*

best they can do is replace one set of disincentives (the unemployment trap) with another (the poverty trap).² Hence part of the case for a Citizen's Income (CI), or more specifically for the variant of it called Basic Income (BI), financed by an integrated income tax.

Another, widely debated solution is a statutory minimum wage. Although some BI advocates regard BI as an alternative to the minimum wage, there is no *a priori* reason why this should be so. On the contrary, a modest BI combined with a modest minimum wage could be more effective than either solution on its own.

On the government benches minimum wage legislation has long been ridiculed, but the ETU may render it a necessity. Although government prefers its own labels, the proposed combination of Family Credit plus ETU is effectively a work-tested negative income tax, without a minimum wage to prevent wage rates going through the floor. We know of no country where such a policy has been introduced.

While the ETU would at best reduce the unemployment trap, a minimum wage combined with transitional BIs would also reduce the poverty trap. In 1994 the Joseph Rowntree Foundation *Inquiry into Income and Wealth*³ compared the pros and cons of minimum wages and in-work benefits. However, the in-work benefits it examined excluded Basic Income. To rectify this omission, we compared the present system with three reform options:

- ETU
- TBIs of £17.75 for every man, woman and child
- TBIs of £17.75 plus a minimum wage of £4.00 an hour

The quantitative analysis uses Polimod,⁴ the income base is 1996-97, and we assume that the tax and benefit changes announced in last November's Budget are already in place. Needless to say, these are tentative studies, not reform proposals.

Basic income

When fully phased in, a BI system would replace most existing social security benefits, all income tax allowances and most income tax reliefs (e.g. for house purchase, personal and occupational pensions). The BIs would be payable to every legal resident, including children. For the majority of adults they would be fixed-amount credits against their income tax, for people with no income (including the majority of children) they would be cash payments, for people with low incomes they would be partly tax credits and partly cash top-ups.

With the exception of those benefits which would have to be retained (e.g. housing benefit, council tax benefit and certain disability benefits), BI offers full integration of the tax and benefit systems. Instead of one set of regulations for the rich and another for the poor, the same regulations would apply from top to bottom of the income distribution. Administrative savings, which were not included in our costings, could run into billions.

Unfortunately, BI cannot be introduced 'at a stroke'. Far too much is at stake. In the initial stages the most to be expected are BIs of about £20 a week, and to make this possible government would have to reduce existing

benefits by the BI amounts. It would also have to reverse its plans for a 20% standard rate of income tax. A higher rate is necessary — about 35% including NI contribution, compared with 24% income tax and 10% NI contribution in 1996-97 — not just to pay for the BIs, but also to ensure that the main gainers from BI are the lower paid. One of our purposes in this research was to shift the tax burden upwards (from poor to rich) and sideways (away from families with children). This is necessary in order to reverse the processes of the past fifteen years.

A BI of £20 may sound too small to be useful, but it is more than the present value of income tax allowances for standard rate taxpayers; moreover the first small slice of earned income (£25 a week) would be tax-free as well. Evidence from simulation models shows that even BIs of £17 a week for adults and £13 for children would raise living standards at the bottom of the income distribution. This is because there are people at present who have no income or only very low incomes, yet do not receive any social security benefits, either because they are not entitled to them, or because they do not claim them. With TBI they would gain immediately.

By contrast, low earners receiving existing benefits would gain less and some would gain nothing, because their BIs would be deducted from their existing benefits. But there is more for them in TBI than the figures suggest, because their status would begin to change, opening up new choices and prompting some of them into the labour market. Their dependence on means-tested benefits would begin to fall and unemployed families would have new choices. Either they could stay on residual Income Support (with its usual restrictions) or they could top up their BIs with earnings, knowing that all earnings rules had gone, that the first slice of earnings would be tax free and that residual Family Credit would still be available.

Earnings Top-up (ETU)

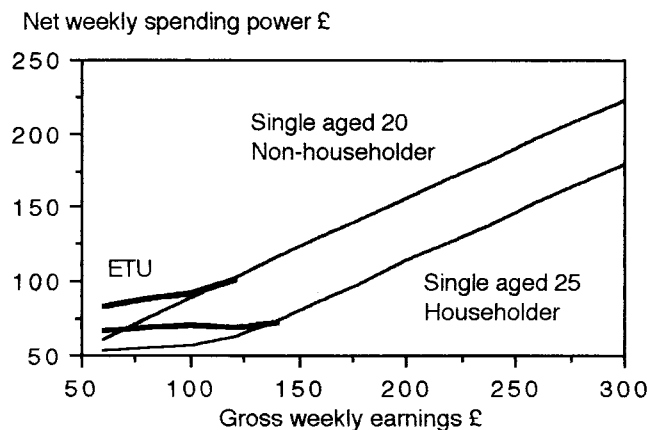
Like family credit, the ETU has its attractions. There would be no direct risk to employment and if unemployed people could be drawn into subsidised employment, the cost to taxpayers of unemployment benefits would be reduced. The bad news is that ETU would extend the poverty trap. Once in place all the lower paid (instead of just families with children) would stand to lose 97 pence of benefit for every £1 earned. The number of people affected by the unemployment trap (defined as the situation where people are better off out of work than working) would go down, but the number of people affected by the poverty trap (defined as the situation where people are little or no better off as a result of earning more) would go up.⁵

Figure 1 illustrates the effects of the ETU on spending power (defined as earnings + rent rebate + council tax rebate + ETU – income tax – NI contribution – rent – council tax) for a single- non-householder aged 20, a single householder aged 25 and a single-wage married couple. All are assumed to work for 30 hours a week or more — thereby qualifying for a 'full-time' ETU bonus of £10. For householders who are local authority tenants, we assumed rent increases in April 1996 of about 7% and council tax increases of 10%.

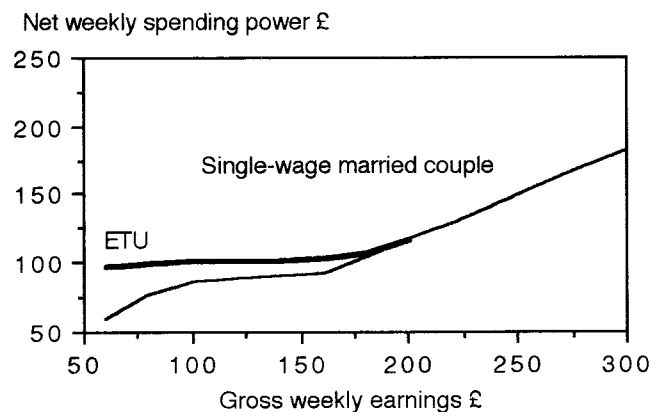
Certainly the ETU increases spending power at the lowest earnings levels, but only by flattening the spending power

Figure 1: Effects of the ETU on spending power, 1996-97

(a) Single person



(b) Married couple



Assumptions: Rent £35.71.
Council tax: £7.48 (single), £9.79 (couple).

curves (represented by the thick, almost horizontal lines in the graphs). As with Family Credit, claimants who restrict their formal working week to 30 hours can maximise their benefit entitlement, reduce their tax liabilities and work expenses, and leave the equivalent of one full day or two half-days a week for time with their families — or time to work on the side. This will not be illegal, for the ETU (like Family Credit) will be payable for six months at a time, and will be free of all earnings restrictions between renewal applications.

Thus taxpayers will be called upon to subsidise employers who pay low wages and employees whose low earnings may be (quite legally) mythical.

Earnings top-ups or a national minimum wage?

There are many dangers with earnings top-ups, and the ETU is no different. Claimants may be encouraged to arrange their formal working hours in order to maximise their benefit entitlements while employers may be encouraged to pay low wages, knowing that government will make good the balance. Either way, there is likely to be downwards pressure on wages, and without a statutory minimum wage there will be no floor to break the fall. Looked at from the employer's point of view, why pay £5 an hour when £2.30 an hour leaves the employee very little worse off?

So far the government has rejected proposals for a statutory minimum wage, on the grounds that it would force employers to pay unrealistic wage rates and would be an ineffective way of targeting help where it is most needed.⁶ To strengthen the second of these arguments, the DSS Consultative Paper quotes a report by the Institute of Fiscal Studies (IFS), showing that the "richest 30% of the population would gain more from a minimum wage than the poorest 30%";⁷ a finding that comes about because the report took households not individuals as the assessment unit for their simulations, and most low earners are women or young adults in families where other members are earning high wages. More detail of their circumstances (including income distribution within families) was not sought.

On the other side of the debate, advocates of a minimum wage argue that the risk to jobs depends on the level of the minimum wage, and that economic efficiency is also at risk when taxpayers' money is used to subsidise uneconomic, inefficient or corrupt employers. Within the Labour Party, minimum hourly rates of between £3.50 and £4.15 are being discussed. The Low Pay Unit is going for £4.26.

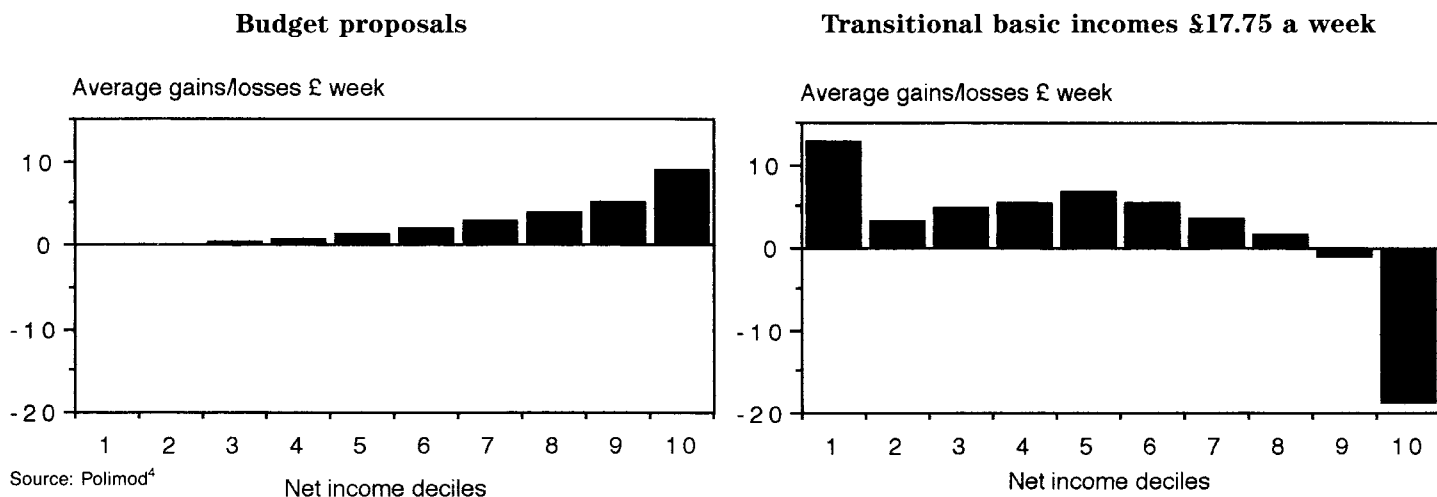
Whatever the target wage, insofar as living standards and work incentives are concerned, wages should not be considered in isolation. For by introducing a minimum wage and a transitional BI simultaneously, the combined effects could be better than the effects of either on its own. They would be better still if increases in rents and council tax were lower, but this was outside the terms of reference for our enquiry. Instead, we compared the effects of a transitional BI on its own with the effects of a transitional BI introduced at the same time as a national minimum wage of £4.00 an hour.

Transitional BI on its own

Assuming 1996-97 incomes and the Chancellor's budget proposals already in place, TBIs of £17.75 per person (adults and children) would be revenue neutral, assuming a starting rate of income tax of 26% (no 20% band), NI contributions at 9% (instead of 10%) and a fixed-amount earned-income tax credit of £6.50 (equal to the first £25 a week of earnings tax-free). Most existing social security benefits would be reduced by the TBI amounts and child benefit would be replaced by the child BIs. Higher-rate tax would be payable at 40% on incomes above £25,300, at 45% on incomes above £45,000 and at 50% on incomes above £65,000. Superannuation, like mortgage interest tax relief, would be restricted to 15%.

Gainers and losers. By comparison with last November's budget, the effects of these proposals are striking (Figure 2). Instead of redistributing upwards (from poor to rich), they redistribute downwards (from rich to poor). The hump in the middle of the second graph may look surprising, but it marks an area where many families with children are congregated.

Figure 2: Redistributive effects of November 1995 budget proposals compared with transitional BIs of £17.75



Transitional BI plus a minimum wage of \$4 an hour

By using model family analysis, that is to say by comparing spending power after housing costs for different family types — all of them working 30 hours a week or more — it is clear that last November's Budget will do nothing to improve the poverty trap. On the contrary, for householders whose rent or council tax bills increase faster than their earnings, the width of the poverty plateau will widen and more people will be at risk of disincentives. Although the ETU would raise living standards for single people and couples at the very bottom of the earnings distribution, the disadvantage, as already explained, is that the lines of spending power for ETU recipients become completely flat.

The effects of introducing TBIs of £17.75 per person are encouraging but certainly no breakthrough. For people on the lowest earnings, the pay-off comes mainly in the form of lower escape points from the poverty trap, hence reduced dependency on means-tested benefits. A single-

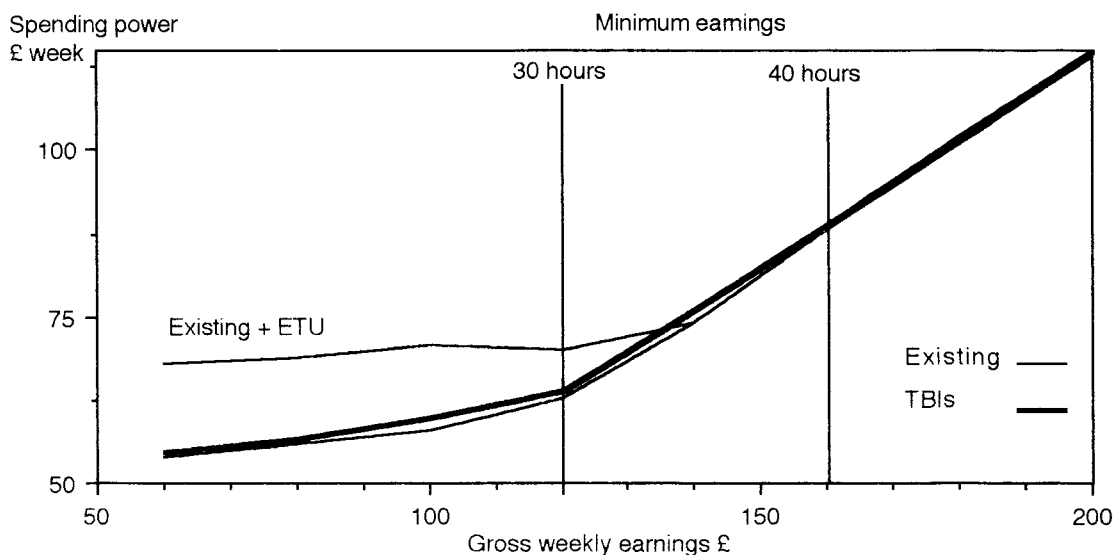
wage couple with two children aged 4 and 6 would need earnings of £200 to escape the poverty trap, instead of £250 at present, and would be some £20 a week better off as well.

The multiple effects of changes in earnings, taxes, benefits and housing costs are difficult to capture in graph form, especially when the spending power changes are small. Figure 3 illustrates the effects of the existing system, the ETU proposals and TBIs of £17.75, first for a single householder aged 25 or over and then for a family with two children aged 4 and 6. Both households pay (estimated) average local authority rents and council tax. The narrow lines track spending power within the existing system, and for the single householder there there is a second narrow line tracking the effects of the ETU. The thicker lines track spending power assuming TBIs of £17.75 for each family member and the tax changes set out above. Curves for other family types are similar, but it is noticeable that couples do better than single people. This is due to the TBIs for non-earning spouses and partners, who at present forfeit their income tax allowances.

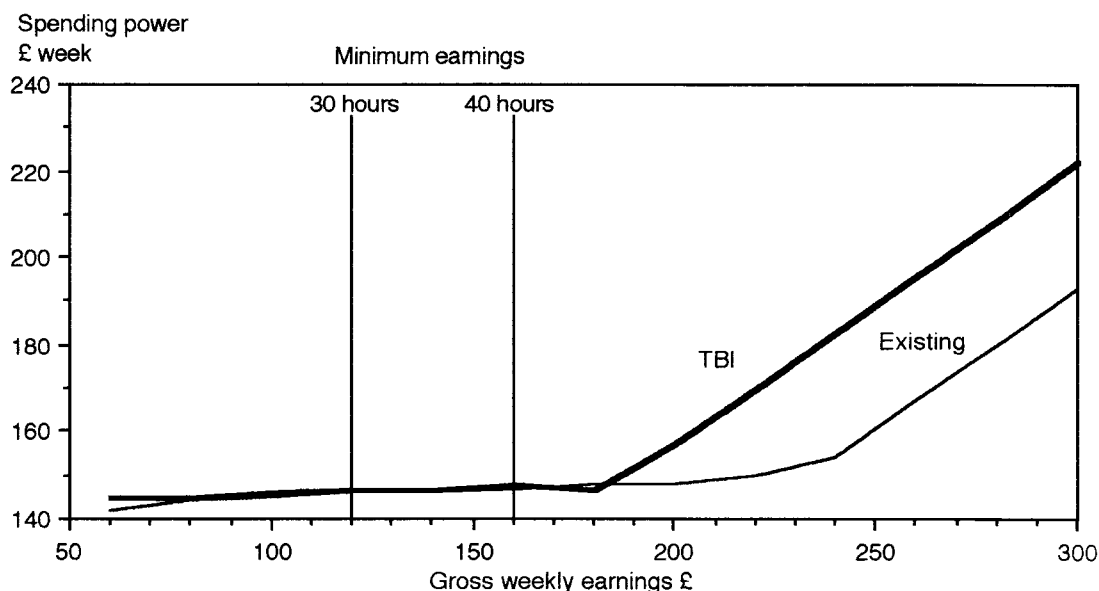
Figure 3: The poverty trap, April 1996

Existing system compared with TBIs of £17.75, with and without minimum hourly wage of \$4.00

(a) Single householder



(b) Married couple with two children aged 4 and 6



Minimum wage could be a breakthrough

A possible breakthrough comes with the introduction of a national minimum wage, for we now have a situation where the poverty trap is narrowed from both ends. Nobody working 30 hours a week earns less than £120 a week, so the flattened curves to the left of the first vertical line cease to apply. Nobody working 40 hours a week earns less than £160 a week, so the flattened curves between the vertical lines also cease to apply. Add to this the effects of the TBIs on the poverty trap escape points — which for families with children are at present well above our illustrative minimum wage, but which would be reduced by the TBIs — and you have a strategy which just could reduce benefit dependency to manageable proportions within a relatively short period of time.

It is also worth noting that a minimum wage of £4.00 an hour would generate some £2,600 million of extra revenue, through increased income tax and NI contributions and through savings in means-tested benefits⁸. These are not behavioural effects, they are the results of increasing people's pay packets. There are many uses to which this extra revenue could in theory be put. It could be used to introduce higher TBIs than those assumed here, or it could be used to reduce employers' NI contributions, thereby helping to offset their increased payroll costs. For our costings we left it as a revenue surplus.

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Holly Sutherland is Director of the Microsimulation Unit, Department of Applied Economics, University of Cambridge.

Both authors wish to express their thanks to Lord Vinson and the the Citizen's Income Trust for supporting this research.

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Interview

Nigel Vinson talks to Susan Raven

When applying for his first passport Lord Vinson described himself as 'inventor'. He started his own plastics company at the age of 21 and built it up into a public company employing over 1,000 people. The company was founded on participative principles and he was chairman or president of the Industrial Partnership Association (now the Involvement and Participation Association) for fifteen years. He went on to be founder-director of the Centre for Policy Studies, chairman of the Managing Trustees of the Institute of Economic Affairs, a director of Barclays Bank and chairman of the Rural Development Commission from 1980 to 1990. He is currently deputy director of Electra Investment Trust, one of the largest venture capital organisations. He was made a life peer in 1984, for public service. He is married, with three daughters, and when not in London lives in Northumberland.

I have followed the intellectual arguments about Basic Income for the past dozen years, and I'm convinced that it could be the key to a more active, prosperous society where work is better spread throughout all sections and areas of the community. The whole idea is very worthy of further, well-resourced investigation.

One of the problems in our modern society is that productivity gains are, on the whole, hogged by those in work, and are not transferred to the rest of the population through price reductions. All modern societies broadly correct this via taxation, which is the mechanism for transferring this surplus back to others less fortunate. Basic Income could be a simpler and better way.

In a sense we already have Basic Income because both child benefit and the old age pension, with its earnings disregard, are forms of Citizen's Income. There will be an increasing number of elderly people, so the principle can only grow. Likewise many people are of course getting unemployment benefit as of right, and such social security payments are in themselves a form of minimum wage or conditional Citizen's Income. Semantics plays a major part in people's perceptions. How to widen the concept of people receiving a supplement as of right, first without destroying the will to work, and secondly without having taxation at such regressive levels that the labour market is further distorted, is the conundrum that needs further research.

I believe that the whole object of the exercise should be to free up and de-restrict the labour market at the bottom end. Unemployment is, as much as anything, caused by excessive regulation and taxation, at the point at which people would normally interchange their labour. It is the great self-inflicted wound of our times. A small, guaranteed Basic Income could be the route to freeing up the labour market at the bottom, and a mechanism for releasing people from a formal engagement in the market. It would help price people back into work.

There is nothing fundamentally wrong with the informal market, any more than there is anything fundamentally

Taxes, Benefits and Family Life: The Seven Deadly Traps

**Institute of Economic Affairs
Research Monograph No. 50**

Hermione Parker

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wrong with painting an old lady's house for cash on a Sunday afternoon, and it should not be illegal. Society has made the white economy black, and every attempt must be made to free it up. Basic Income, by in effect guaranteeing a minimum income, could be a springboard from which this activity could operate.

How to square this circle is the question. It would probably mean dramatic increases in indirect taxation, but if this means that the exchange of labour is otherwise unregulated, it would be a huge gain. I believe we would be surprised by the growth of overall economic activity. There is no shortage of work that needs to be done, but our society has put obstacles between the supply of labour and the demand for it. If you artificially increase the price of butter you get a butter mountain, if you artificially increase the price of labour you get a labour mountain. National insurance and regressive tax at lower income levels achieve precisely this result. Job protection measures overall result in job destruction, and one only has to look to the freer markets of Hong Kong and America to see much higher levels of employment and a brisker interchange of labour at local and community level, leading, what is more, to a standard of living that is now overtaking ours.

Increasingly, welfare payments to many are an artifice: in practice the state deducts tax from the left pocket to pay it back by way of social security into the right pocket. This merry-go-round — this huge paperchase — is already threatening budgetary control in most democracies and leading to escalating levels of unemployment (of which Spain is the prime example). Squaring the circle of taxation, so that it does not damage personal or business enterprise, is the nirvana which Basic Income might help achieve — provided the underlying principle of no targeting (i.e. universality) does not result in the Basic Income being too low.

Citizen's Income is a concept that any and all governments should interest themselves in, and if it leads to a simplification — indeed a near-abolition — of welfare payments and all the paperwork that gums up the exchange of labour, all shades of political opinion should welcome it. That is why further research is so essential.

Removing the threat of illegality, with which society currently shackles the interchange of labour, could enable communities to exchange their labour naturally and spontaneously, as the so-called black market does today. Where this is allowed to happen, economic prosperity returns. Just think what this would do, or could do, to our inner cities, where local communities have been effectively destroyed, or their economic activities driven underground! If Basic Income could bring those activities above ground — legally — and let them flourish, the sum total of human happiness would be greatly advantaged.

Citizens' pensions and women

Jay Ginn

There is little doubt that Citizen's Income (CI) would be of particular benefit to women.¹ In this article Jay Ginn explains why citizens' pensions would narrow the income gap between women and men during later life. In Scandinavia, the Netherlands and Canada such pensions already exist. In Britain pensioner and other groups need to press the idea vigorously, so that Parliament too will take the matter up.

Most pension systems link pension income to life-time paid employment and thereby fail to provide financial security for those who have spent time out of the labour force, usually to care for their families. That is why poverty is concentrated among older women. Women fare best in pension schemes which reflect an egalitarian philosophy, breaking the link between employment and pensions and redistributing resources so that those with caring responsibilities do not suffer financially in later life. A citizen's pension would go a long way to remedy the current inequity to women.

Since 1979, the British pensions mix has been shifting away from public towards private provision, a change legitimised by the neo-liberal philosophies of writers like Friedman and Hayek. A string of cuts in social security benefits, notably the indexing of the state basic pension to prices instead of earnings and cuts in the state earnings-related pension scheme (SERPS), have been accompanied by incentives to switch to personal pensions. These changes bear hardest on women, because of their limited opportunities to build private pensions. Any earnings-linked pension, private or state, will reflect women's lower rates of pay, which in Britain still average less than 70 per cent of men's. However, specific features in the design of pension schemes may increase women's disadvantage.

Britain's pension system comprises a mixture of private and state schemes which can be ranked according to their underlying philosophies and their effects on women's independent incomes in later life (see Table). At one extreme is the personal pension, which transmits social stratification from the labour market into later life; at the other end is the state basic pension which has a levelling effect. The recent shift away from state provision towards personal pensions exacerbates gender inequalities.

Personal pensions

The risks to individual contributors and the lack of employers' contribution above the legal minimum are particularly severe for women. High start-up fees can absorb a disproportionate share of the investments made by part-time and lower-paid workers, especially when the contributor has career breaks. Personal pensions, although portable between jobs, do not bridge gaps in earnings. Women also receive smaller personal pensions than men for the same contributions, because annuity rates are based on sex-differentiated actuarial tables of life expectancy.

It has been estimated that of the 2 million women who had taken out personal pensions by 1993,² about 42% were aged over 30 (and therefore ill-advised to join), while 70% earned less than £10,000 a year, which according to Coopers and Lybrand is the minimum income required for a viable plan.³

UK PENSION SCHEMES AND WOMEN

<i>Type</i>	<i>Drawbacks for women</i>
Personal pensions	Poor return for part-time work and interrupted career.
Occupational pensions	As for personal pensions, plus part-time work often excluded.
SERPS (now)	Periods of no pay, low pay or part-time work reduce the pension.
SERPS (original)	Periods of no pay, low pay or part-time work (up to 20 years) did not matter.
National insurance basic pension	Years out of employment may reduce the rate. Poverty trap effects due to low benefit levels.
<hr/>	
Citizen's pension	No penalty for years out of employment. Entitlement independent of marital status.

Occupational pensions

The rationale for occupational pensions combines paternalism with the objective of binding highly valued employees to the firm with 'golden chains'. For the state, occupational pensions are a means of satisfying the desire of middle class men (and those with strong trade union organisation) for higher replacement incomes than the basic state pension provides. British occupational schemes, like the state earnings-related pension schemes common elsewhere in Europe, maintain class and gender stratification. The British occupational schemes have the additional drawback that they cover only 64% of male and 36% of female employees.⁴

Designed to retain loyalty to the employing organisation and based on the assumption of continuous full-time employment, it is hardly surprising that women have fared badly from occupational pension schemes. Excluded if they worked part-time or had short service, losing entitlements as early leavers and lacking the rising earnings profile required for maximum benefits, older women are far less likely to have good occupational pensions than men. Only a quarter of older British women, compared with two-thirds of men, have income from this source and the amounts received by women are far lower.^{4,5,6}

Moreover, because the post-war increase in women's rate of employment is almost entirely in part-time working, there is unlikely to be much improvement in older women's income from occupational pensions in future.⁷

SERPS (1986 version)

Although SERPS has the advantage of universal access and full portability from job to job, it provides a very low

pension by European standards. Like all earnings-related schemes, it also maintains social stratification established during working life, to the disadvantage of women. Since 1988, as a result of Sir Norman Fowler's 1986 social security reforms, the value of SERPS has been drastically reduced. This is especially so for women, because benefits are now based on average earnings over the working life (currently 39 years, but due to increase to 44 years from the year 2010). Although years of full-time family caring (up to 20) may be disregarded, part-time employment where earnings exceed the lower earnings limit for national insurance contributions (£59 per week in 1995-96) counts towards life-time average earnings for SERPS and hence reduces pension entitlement. For carers who cannot take full-time employment, this creates a financial disincentive to working part-time.

SERPS (1975 version)

As originally formulated, SERPS had a better accrual rate than now. Most important, it was redistributive towards those with poor employment records and to this extent it helped women. It was also tailored to women's needs in using each person's best 20 years earnings to calculate their pension entitlement.

State basic pension

Britain's post-war national insurance pension embodied social democratic ideas in providing a flat-rate (basic) pension which, in conditions of full employment, would be universal for breadwinners and their wives. However, only two-thirds of women aged over 60 have any basic pension in their own right and fewer than one in five receives the full amount. As a result of New Right policies the basic pension has fallen to more than £6 below the level of means-tested income support. This creates a poverty trap in which small amounts of additional income bring no increase in net income. Whereas men's occupational or personal pensions are often large enough to transcend the pensioner poverty trap, this is rarely so for women. Although Home Responsibilities Protection credits for years of family caring since 1978 should improve women's entitlement rate in future, the decline in value of the state basic pension will limit the effect of improved coverage on older women's poverty. This will force more older people into dependence on means-tested benefits, with all the attendant problems of stigma, poor take-up and the poverty trap.

Citizen's pension

In Denmark, with its tradition of social solidarity, citizenship rights to social inclusion take precedence over employment or earnings records in the pension system. The basic element is a state social pension to which (since 1970) all 40-year residents are entitled from age 67. Funded from general taxation, and amounting to half as much again as the British basic pension, it is redistributive, both among social classes and between women and men.⁸ Despite additional private pensions which transmit social stratification into later life, Denmark stands out from other European societies in the degree of equality among its older citizens, as well as between older and younger people.⁹

Most significant, for women, is that wives are treated as equal citizens rather than as dependants of their husbands. Each older person receives the Social Pension in his or her own right, so there is no need for the state

to provide survivors' benefits, dependants' allowances and so on. The Social Pension has enjoyed widespread support from the population, although Denmark, like most other European societies, has been subject to a political shift to the Right with consequent pressure to reduce public welfare spending.

Hidden public costs of private pensions

Personal pensions have been promoted in the UK as enhancing choice and control by individuals over their retirement incomes, whilst reducing public spending. What is hidden is the substantial public cost of the financial incentives provided, and the fact that these resources could instead be used to improve state pensions. For example, in the five years from 1988-93 the net cost to the National Insurance Fund of incentives to transfer from SERPS to personal pensions was £6,000 million (at 1988 prices).¹⁰ Treasury expenditure on tax reliefs for contributions to occupational and personal pensions grew dramatically under the Thatcher administration (from £1,200 million in 1979 to a massive £8,200 million in 1991).¹¹ At that time the annual cost of encouraging private pension provision amounted to a third of the cost of the basic state pension. Thus the expansion of private pensions is taking place at the expense of improving state pensions. As John Hills has pointed out, privatising pension provision will not make pensioners' claims on future resources disappear: they will merely manifest themselves in a different way.¹²

Government efforts to persuade voters that the private sector offers better pensions tend to erode electoral support for state pensions. Yet reliance on the private sector can leave pensioners high and dry: occupational pension funds are vulnerable to bankruptcy, asset stripping on takeover, privatisation (British Coal) and fraud (the Maxwell scandal), while personal pensions are expensive to administer and something of a lottery, since the amounts received depend on the uncertainties of the money market. Private pensions are particularly ill-suited to women's needs because they cannot protect women who have had caring responsibilities from poverty in later life.

Who would support a citizen's pension?

A citizen's pension would be fairer to women, more reliable, and more efficient administratively than the present state pension schemes. It would also be affordable, especially if public subsidies to the private sector were phased out. Yet so far only pensioners' organisations, coordinated through the National Pensioners Convention, have campaigned for a universal basic pension of one-third average earnings (effectively a citizen's pension).

In order to build support for a citizen's pension, people need to understand what it is and how it would work. Here the example of Denmark is particularly valuable. The following are important elements in the argument for a citizen's pension:

- It recognises social interdependence, valuing other kinds of work as socially necessary besides paid employment.
- It prevents the poverty older women would otherwise suffer through spending part of their working lives caring for their families.

- It removes the disincentive effects of the pensioner poverty trap, allowing people to benefit from extra income from other sources.
- It is highly efficient administratively, making most existing state benefits for older people redundant.
- It would have almost 100 per cent take-up, unlike means-tested benefits.
- Where other income is high, taxation would claw back the amount of the citizen's pension.
- A form of citizen's pension works well in Denmark, where the Social Pension has guaranteed financial security for a generation of older people.

Now is the time

There are several reasons why this may be a good time to promote the idea of a citizen's pension (or an enhanced and universal basic state pension). Most important, the climate of public opinion has swung against the 'me first', neo-liberal ideology of the Conservative government, and there is widespread disillusion with private (especially personal) pensions. Increased insecurity of employment makes occupational and personal pensions less attractive than in the past. At the same time, realising the implications of the growing pensioner poverty trap may persuade those with private pensions to support the idea. Finally, there is a growing awareness among British pensioners of the gulf between their incomes and those of pensioners in the rest of the European Union.

Dr Jay Ginn is currently employed at the National Institute for Social Work in London. Previously she was employed in the Sociology Department of Surrey University, researching gender differences in the resources of older people.

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A Partial Basic Income for Belgium

Bruno Gilain and
Philippe Van Parijs

This article summarises the authors' working paper Document de Travail No 19, L'allocation universelle: un scénario de court term et son impact distributif,¹ presented to the 22nd Congress of Flemish Economists in Brussels in October 1995. The authors wish to emphasise that this is a working paper, not a reform proposal. It is also the first attempt to cost a BI in Belgium since Paul-Marie Boulanger's 1986 paper, which assumed adult BIs equal to Belgium's 'minimex' for a single householder;² the 'minimex' being Belgium's safety net of last resort (like 'income support' in the UK). In their paper, Gilain and Van Parijs assume BIs for every adult of Belgian Francs/BF 8,000 a month in 1992, which is less than the 'minimex'. Until the £ sterling left the ERM, a BI of BF 8,000 would have been worth approximately £133 a month or £30.50 a week. Using the average exchange rate for the whole of 1992, it would have been worth £141 a month or £32.60 a week. Either way the partial BIs discussed here are considerably higher than the transitional BIs costed by Hermione Parker and Holly Sutherland elsewhere in this Bulletin, which helps to explain the higher income tax rates required for the Belgian scheme. The full version of the Belgian paper, in French, is available from the authors at the University of Louvain, Chaire Hoover, 3 Place Montesquieu, B-1348 Louvain-la-Neuve, Belgium, DOCH 19, 60pp.

In Belgium as in the rest of Europe, Citizen's Income (CI)³ has become an accepted part of the arsenal of ideas considered relevant to the medium and long-term future of social security. The debate has progressed on a number of fronts. However, with the exception of the United Kingdom, Ireland and the Netherlands, there has been little research into the costs and distributional effects of BI, especially at rates which might be realistically possible in the short term. The purpose of this report is to start to fill the gap by analysing the effects in Belgium, in 1992, of a CI of BF 8,000 per month for every legally resident adult.

There were two reasons for choosing this amount. On the one hand the CI had to be large enough to produce the desired objectives of all CI schemes, namely: simplification of the tax and benefit systems, reduction in the number of social security claimants subject to means tests and above all an improvement in work incentives (the unemployment trap). On the other hand, when devising our CI scheme, it was also necessary to avoid sudden increases in marginal tax rates and/or any major redistribution of incomes, for example from single people in favour of couples — the aim at this stage being

to lay the foundations for a new tax/benefit system, not to abolish the existing one.

Having decided upon the CI amount, we then had to select a financing method — reductions of existing benefit entitlements and/or increases in existing taxes — which would be revenue neutral. At this stage there could be no question of using assumed higher economic growth rates to finance the CI. The financing method should leave the current distribution of net incomes as little changed as possible, because the objective is to change the structure of incentives, not to reduce inequality or poverty. Rather than risk unnecessary opposition to CI, it makes sense to keep its redistributive effects within narrow limits.

In carrying out our research, we were able to use a microsimulation model (SIRE) developed by the Belgian Ministry of Finance. This model enables users to compare the impacts of different reform options on taxpayers' net incomes. First it calculates the effects of tax changes and changes in child benefit⁴ on a representative sample of over 10,000 tax-paying households; then it extrapolates the figures for the whole of the tax-paying population (i.e. 86% of the population). Similarly, the model calculates the budgetary and redistributive implications of modifications to the tax system, including the introduction of reform options like CI.⁵ The exclusion of non-taxpayers from the costings presents problems. For our calculations we estimated the average net cost of the CI for each non tax-paying adult (the majority of whom are social security claimants) would be BF 1,500 a month.

Reform specifications: an example

The following is a summary of one of the reform options which we put through SIRE. All the figures are at 1992 prices:

- Every permanent resident of Belgium aged 18 years or more receives a tax-free CI of BF 8,000 a month.
- Social security benefits below BF 8,000 are abolished, social security benefits above BF 8,000 are reduced by that amount.
- Family allowances for dependent children aged 18 years or over are abolished.
- Child tax reliefs for dependent children aged 18 years or over are abolished.
- Income tax reliefs for married couples are abolished.⁷
- The tax exempt amounts are reduced to BF 40,000 for single people (instead of BF 181,000 in 1992), and to zero for married couples (instead of BF 143,000).
- Tax reductions for social security benefits are increased by about BF 45,000.
- In order to increase income tax revenues by the amount of the deficit shown in Table 1, income tax bands and rates are adjusted as shown in Table 2.

Table 1: Net cost of Citizen's Income

<i>BF billion, 1992</i>	
Cost of CIs for adult population represented in SIRE	624.00
Cost of CIs for adult population not represented in SIRE	20.00
Savings on existing social security benefits	- 129.90
Savings on child benefit from age 18	- 23.40
Net cost or deficit	= 490.70

Table 2: New income tax bands and rates

<i>Bands of taxable income* 1992, BF</i>	<i>1992 rates %</i>	<i>Proposed rates %</i>
0 — 105,000	25	25
105,000 — 253,000	25	50
253,000 — 335,000	30	50
335,000 — 478,000	40	50
478,000 — 1,100,000	45	50
1,100,000 — 1,500,000	50	50
1,500,000 — 1,650,000	50	52.5
1,650,000 — 2,200,000	52.5	52.5
2,200,000 — 2,420,000	52.5	55
2,420,000 and over	55	55

* Net of social insurance contributions

Marginal tax rates: Tackling the unemployment trap

Two main conclusions emerge from the reform options we explored. The first concerns the cost of CI, the second its redistributive effects. Regarding the cost of the proposal, measured here by the income tax rates necessary to finance it, our experiment (although only illustrative) was able to establish the following proposition. So long as the existing top rates of income tax remain unchanged, even a modest CI would require increases in the income tax rates payable near the bottom of the income distribution from 25% to 40%, or even to 50%. These tax rates exclude social insurance contributions and would be necessary despite reductions in existing income tax allowances. However, in our view this finding is neither surprising nor a cause for concern, since the higher income tax rates replace marginal tax *plus benefit withdrawal* rates, when unemployed people return to work, of 100% (or more).

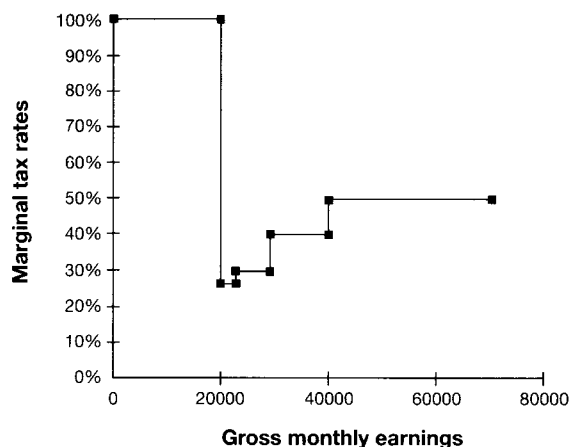
The simulations also show that the width of the unemployment trap correlates with the average tax rate payable on wages below the difference between the former out-of-work benefit (about BF 19,000 for a single person receiving the 'minimex') and the new CI (BF 8,000), that is to say on wages below BF 11,000. This suggests that it would be worth while to study another CI variant, allowing a single person to earn perhaps BF 11,000 free of income tax, although this would mean raising the starting rate of income tax above 50%.

The graphs compare the marginal tax rates of a single person, first when receiving the 'minimex' and second when receiving a CI of BF 8,000, assuming the tax

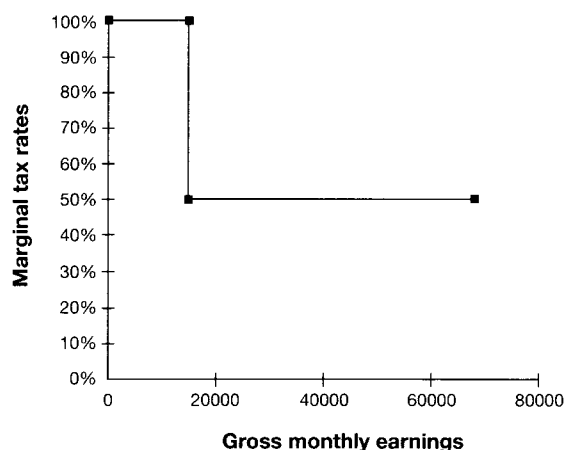
changes outlined above. But the figures are only illustrative, for the unemployment trap comes in many shapes and sizes.⁷ Remember also that the high implied marginal tax rates at the bottom of the earnings distribution in Graph A (which portrays the existing tax-benefit system at 1992 tax and benefit rates) include withdrawal of the 'minimex' franc for franc with every increase in earnings. This resembles the experience of unemployed people in the UK, who generally lose £1 of income support for every £1 of earnings when they return to work.

IMPLIED MARGINAL TAX RATES, BELGIUM 1992 Single person (no children) in receipt of 'minimex'

A. Current tax-benefit system, situation in 1992



B. Situation assuming a Citizen's Income of BF 8,000



Gainners and losers

Although it is impossible (within the tax constraints at our disposal) to introduce a CI that does not result in some people losing out, it is possible to calibrate the tax changes in such a way that the net incomes of some 80% of households remain within BF 4,000 a month (about £15 a week) of what they were before. We were also able to ensure that nobody on a low income loses more than BF 4,000 a month, and that very few high income households gain more than BF 4,000.

Table 3: Percentages of households with annual net income changes of:

A. SINGLE PEOPLE					
Loss/gain BF '000s annual	Gross annual earnings BF '000s				
	0 - 200	200 - 400	600 - 1,000	1,000 or over	Total
	%	%	%	%	%
Lose over 50	0	0	6	23	4
Lose 5 - 50	0	40	90	74	52
Lose 5 - gain 5	13	36	2	2	22
Gain 5 - 50	18	21	2	1	14
Gain over 50	69	3	0	0	8
Total	100	100	100	100	100

B. MARRIED COUPLES						
Loss/gain BF '000s annual	Gross annual earnings BF '000s					
	0 - 200	200 - 400	600 - 1,000	1,000 - 1,500	1,500 or over	Total
	%	%	%	%	%	%
Lose over 50	0	0	6	18	54	17
Lose 5 - 50	0	8	36	71	41	40
Lose 5 - gain 5	0	5	17	4	2	9
Gain 5 - 50	0	37	34	7	2	21
Gain over 50	100	50	7	0	1	13
Total	100	100	100	100	100	100

Conclusion

Microsimulations like these are essential in order to be able to evaluate the redistributive consequences of CI, which affect its political acceptability, and to be able to

identify the necessary tax adjustments, which is important from an economic efficiency point of view.

It nevertheless has to be said that this type of model does not and cannot estimate the behavioural effects of the changes that are simulated, for instance their effects on consumer spending, labour supply, work effort, voluntary savings or risk taking. Given that the most important economic arguments for and against CI rest on hypotheses concerning its behavioural effects, this means that the present exercise does not show us whether a low CI would be economically beneficial or harmful. The present exercise is nevertheless indispensable if those further issues are to be addressed with any rigour.

Philippe Van Parijs is Professor of Economic and Social Ethics at the Catholic University of Louvain and Secretary of the Basic Income European Network (BIEN).

Bruno Gilain is researcher at the Fonds de développement scientifique, Chaire Hoover & IRES, Catholic University of Louvain, Belgium.

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1. In English: *Citizen's Income, a Short-term Scenario and its Distributive Effects*.
2. Paul-Marie Boulanger, *Allocation universelle, niveaux de Vie et offre de travail*, in *Les Niveaux de Vie des Belges*, Septième Congrès des Economistes Belges de Langue Française, Vol 2, Charleroi: CIFOP, 1987.
3. *Allocation universelle*.
4. *Allocations familiales*.
5. We are particularly grateful to Isabelle Standaert, economist at the *Service d'Études du Ministère des Finances*, for her help.
6. For instance the *quotient conjugal*/family quotient and the *transfer de quotité exemptée* (reduction for single-earner married couples).
7. For more detailed analysis see Cappi, R. and Delvaux, B., *Les Allocataires Sociaux Confrontés aux Pièges Financiers: Analyse des situations et des comportements*, Université Catholique de Louvain, IRES, research report; and Parker, H. *Taxes, Benefits and Family Life: The Seven Deadly Traps*, Institute of Economic Affairs, Research Monograph 50, London, 1995.

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OBITUARY

Professor James Meade¹

Tony Atkinson writes:

With the death on 22nd December 1995 of Professor James Meade CB FBA, Citizen's Income has lost one of its most eminent and long-standing supporters.

James Meade was one of the outstanding economists of this century, whose contribution to economic understanding was recognised internationally in the award of the Nobel Prize for Economics in 1977. His career was remarkable. In the early 1930s he was a member of the 'Circus' of young economists surrounding Keynes; in 1937 he became editor of the World Economic Survey of the League of Nations. During the Second World War he joined the Economic Section of the Cabinet Office and became its Director at the age of 39. Among the areas of policy for which he was responsible were the 1944 White Paper on Employment Policy and the GATT negotiations.

In 1947 he returned to academic life, first at the London School of Economics and then as holder of the chair of Political Economy at Cambridge from 1957 to 1967. His students learned not only a great deal of economics, but also how to combine the highest intellectual standards with courtesy in debate. In retirement, he chaired the influential Meade Committee on the structure of direct taxation, and continued to write prolifically.

In 1935, James Meade, then aged 28, prepared an *Outline of Economic Policy for a Labour Government*, in which he referred to the use of tax revenue to extend "the equality of incomes first by the development of social services and later by the distribution of social dividend". (Social dividend was for many years the term used to describe a Citizen's Income.) The paper was not published, but next year in his widely successful textbook, *An Introduction to Economic Analysis and Policy*, he referred at several points to the case for a social dividend.

James did not have a fully worked out proposal for a social dividend, and when in 1948 he returned to the subject in his book *Planning and the Price Mechanism*, it was the scheme of Lady Juliet Rhys Williams that he discussed. His characteristically modest reference to her as "the first proponent of the scheme" led many people, myself included, to be in ignorance of his own prior contribution — just as James himself was unaware of the earlier proposals for a 'state bonus' advocated by his friend Bertram Pickard, together with Mabel and Dennis Milner, immediately after the First World War.

James Meade returned to the idea of a social dividend on several occasions, including his Sidney Ball Lecture in Oxford in 1972, his *Intelligent Radical's Guide to Economic Policy*, published in 1975, and his writing on *Agathotopia* (not Utopia, but a Good Place), which attracted wide attention in recent years. The latter reflected his unique contribution to the debate, which

is that he saw Citizen's Income as part of a more extensive reform of economic institutions, which would combine fiscal policy to achieve full employment, recasting of wage- and price-fixing mechanisms, and an equitable distribution of income. All this, together with a Citizen's Income modified by a withdrawal surcharge, was the subject of his last book, *Full Employment Regained?*, presented at a seminar in November 1995 at the Institute for Fiscal Studies.

Citizen's Income owes a great deal to James Meade. As it has been put by Walter Van Trier, 'Meade's regular revisits to the idea kept it alive within the economics literature and available to others'. He will be greatly missed.

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

Note:

1. I discussed CI with James Meade more or less from the time I first got to know him 30 years ago; in writing about the earlier history, I have drawn heavily on Walter Van Trier's doctoral thesis *Every One a King*.

I would strongly urge a compassionate base to sustain well-being, so that people have, even though there is some abuse, a basic income — a rich country can afford that — and basic health care — a rich country can afford that. And that we have strong and concerned investment in education, not just for the productivity of education, but for the enjoyments that come from education.

Professor Kenneth Galbraith, talking to Andrew Marr 10 January 1996, BBC 2.

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.

Europe

BIEN reorganised

Philippe Van Parijs reports: The Basic Income European Network (BIEN) was founded in 1986, following the first international conference on Basic Income at Louvain-la-Neuve in Belgium. BIEN aims to serve as a link between individuals and groups committed to or interested in Basic Income, and to foster informed discussion throughout Europe. It holds an international conference every second year. The next one is in Vienna on 12th-14th September 1996. BIEN has subscribing members in 14 countries. Its governing body is a General Assembly of all its subscribing members. It meets every second year on the occasion of the international conference and elects an executive committee. Related networks and associations include:

Citizen's Income Trust (United Kingdom)
Vereniging Basisinkomen (Netherlands)
BIEN Ireland (Ireland)

Since 1988 BIEN has published a regular newsletter, which is now available by e-mail. As from January 1996, BIEN should also have a page on World Wide Web which will present the contents (events and publications) of previous newsletters (from 1988 onwards) in an integrated form.

If you wish to know more about BIEN, please write to BIEN's secretary, Philippe Van Parijs, Chaire Hoover, 3 Place Montesquieu, B-1348 Louvain-la-Neuve, Belgium. Fax 32 10 473952, e-mail: vanparijs%espo.ucl.ac.be with your full name and address.

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For further information, contact Sally Lerner at the University of Waterloo, Ontario, Canada (lerner@watserv1.uwaterloo.ca).

UK

Sharpening the argument

Richard Clements reports: On 1 December 1995, Citizen's Income Trust held a conference in London, with the title: *Citizen's Income: how best to win the argument?* The idea was to seek advice from the invited speakers and from the audience on how to popularise the CI concept. We were not disappointed. A packed meeting came up with enough good ideas to keep us at full stretch for the next two years. What's more, many of those attending were able to show how the case for Citizen's Income (CI) can be related to their own specialities.

Our speakers gave us ammunition enough, but it was by no means a top down exercise. From the floor came a barrage of arguments in favour of CI, to add to those already mustered. If I can pick out one which seemed to dominate the thoughts of both speakers and audience it is that we should lay more stress on the breakdown of the existing welfare state. It is broken beyond repair and needs replacing. Cutting it here or adding there fails in every respect. Only CI gives a comprehensive answer.

Professor Meghnad Desai of the London School of Economics, who was the first speaker, concentrated on what he described as his "deep pessimism" about the prospects of providing work for everyone who wants it in advanced capitalist societies. As a result of deep-seated changes in the labour market, it is now much more likely to provide only episodic employment. In these circumstances the arguments in favour of CI become stronger as income from work dwindles. Citizen's Income Trust needs to provide detailed answers to objections by our critics that it would be too expensive. In operation, he believes, CI would save the nation a great deal.

Dominic Hobson, co-author of *Saturn's Children*¹, and our second invited speaker, urged that if we are to win the argument for CI we must convince people that it is the malign interactions between the system of taxation and the system of social security which are at the heart of the problem of poverty. It would require, he said, a massive triumph of hope over experience to continue to believe that we can accomplish our aims by using conventional political techniques alone. Instead we must create two visions: first a terrifying glimpse of the lawless, impoverished future which awaits us if we persist with present policies, second the secure and prosperous future which awaits us if we have the courage to change. We also need to "find a new political language for Citizen's Income . . . Whether we like it or not, we live in an age in which possessive individualism has triumphed . . . In this kind of society, the idea of Citizen's

Income will make no progress at all if its idiom harks back to the golden age of socialism instead of looking forward to a golden age of plenty."

From the floor, David Purdy of Manchester University made the point that Citizen's Income has always been a broad church, which could embrace governments that opt for the market system, or governments that opt for a socialist form of economic life. Jay Ginn, from the National Institute for Social Work, said that Britain's pension system creates fundamental inequities. Those who spend time out of employment — usually to care for their families — are penalised by personal poverty in later life. A Citizen's Pension would go a long way to avoid this. If it were based on the Danish model, it would largely eliminate poverty among older people and would minimise the adverse effects of family care provision (mainly by women) on pension incomes in later life. (See article by Jay Ginn elsewhere in this Bulletin).

Baroness Seear, from the Liberal Democrat benches in the House of Lords, said that this country is not highly taxed. If we want to live in a reasonable society we have to pay for it. We should not shy away from that argument. She also believes that we should move towards an expenditure tax to pay for a form of Citizen's Income. As a former member of both the Labour Party's Social Justice Commission and the Liberal Democrats' Dahrendorf report, Professor David Marquand, principal-elect of Mansfield College, Oxford, had some useful insights about the arguments for and against CI. He was surprised at the reactions expressed in both reports to such a sensible proposition. Would CI really sap our moral fibre? Citizen's Income Trust should take the moral argument by the throat. To be a full member of a modern society — to attain social citizenship — one needs something like a CI. Governments should provide people with the means of establishing themselves in society.

CI would be a massive change, but the necessity for change in the welfare state should be apparent to all, said Paul Hirst, Professor of Social Theory at Birkbeck College. It is untrue that Britain's involvement with the global market precludes change along the lines of a citizen's income. We have to approach the problem by urging that welfare expenditure is an absolute necessity in an effective and compassionate society.

Our final invited speaker was Ken Mayhew, Fellow in Economics at Pembroke College, Oxford. He stressed that his recent research had shown the inadequacies of the existing benefits system. People do not believe it, but it is true that the unemployment and poverty traps keep people out of work. We should not be apologetic in putting forward our arguments for CI. It would be a mistake to believe that everything could be changed by the introduction of a single policy, but we must start somewhere.

Space does not permit detailed accounts of our speakers' contributions, but from the encouraging words which I received from others who attended I am sure the conference achieved its purpose. Many of the themes taken up by our invited speakers were amplified by the audience: Anne Miller (a CI Trustee from Edinburgh), Ursula Huws (involved in cross-national research in Europe) and Abigail Thomas from Manchester all sketched out the ways they would like to see Citizen's Income Trust spread its influence: by exciting the interest

of those who suffer under the existing tax and benefit systems, as well as of those who have been looking for solutions.

From Hermione Parker (Editor of the CI Bulletin) and Professor Richard Whitfield (Warden of St George's House, Windsor Castle) came appeals to link up with those who are trying to win support for policies to strengthen family life. It is an issue of 'social solidarity'. Professor Whitfield stressed the need for a 'sense of belonging', which would be made tangible by provision of a basic income. Hermione Parker said that a more generous system of family income support, to enable parents to spend more time with their children, is a precondition for economic as well as social progress.

Perhaps what has pleased me most is the ready response received from those who were not able to put their views forward at the Conference. We have had offers which will help us improve our method of communication. We have heard from people who want us to send information to their memberships. We have had suggestions on how to boil down the CI message so that it can be readily understood by all. As Evelyn McEwen, who chaired the conference, said at its outset:

"This meeting was originally planned to discuss the future of Citizen's Income Trust at a time when our funding by the Rowntree Charitable Trust was going to run out. But thankfully, owing to the generosity and far-sightedness of the Rowntree Charitable Trust, we are now in a position where we have sufficient funds to carry us through to April 1998. So we have converted what might have been a gloomy wake into a glorious celebration. And we have invited you along to give us your advice and expertise about our future. The argument for Citizen's Income is not going to go away. But we all know we have to sharpen it."

Reference

1. Alan Duncan and Dominic Hobson, *Saturn's Children: How the State Devours Liberty, Prosperity and Virtue*, Sinclair-Stevenson, 1995.

If a scheme like 'TBI 96' were introduced, no unemployed family would be worse off than before ... but more than half their benefit would become a trampoline instead of a trap.

Hermione Parker in: *Taxes, Benefits and Family Life: The Seven Deadly Traps*, Institute of Economic Affairs, 1995, page 118.

Book Review

TAXES, BENEFITS AND FAMILY LIFE: THE SEVEN DEADLY TRAPS

Hermione Parker

Research Monograph 50,
Institute of Economic Affairs,
2 Lord North Street,
London SW1P 3LB,
1995, pp 149, ISBN 0 255 36270 2, pbk, £12.00.

Kent Matthews writes:

For those familiar with Hermione Parker's work this book will come as no surprise. Her name has long been associated with the social and economic issues relating to poverty, unemployment and income distribution, and in particular the Basic Income hypothesis. For the casual reader and for those who are only marginally aware of poverty issues, this book is a thorough and highly readable account of the tax and benefit systems that entrap the individual and the family into the culture of dependence. The book introduces readers to the issues, shows them the scale of the problem and sets out an alternative that limits dependency and encourages work and wealth creation.

The casual reader may be forgiven for thinking that since average earnings have risen by more than Supplementary Benefit/Income Support¹ for the past ten years, the problem of the unemployment trap, as measured by the 'replacement ratio', must have diminished. Ms Parker puts us straight. While accepting that replacement ratios based on average earnings may have declined, more realistic calculations based on 75% of average male manual earnings, but including housing costs and work expenses, show that they have, if anything, worsened.

This book has six parts. The first part sets the scene by re-examining the problem as set out by Parker in an IEA Research Monograph in 1982.² The final part summarises the findings. Little has been achieved since 1982, according to Parker. A series of income tax cuts and benefit reforms have not improved work incentives, because of offsets caused by higher national insurance contributions, local taxes, rent increases and the freezing of child benefit. The balance between work-hostile programmes such as Income Support (which is means-tested and work-tested) and child benefit (which is universal and tax-free), has been upset over the past decade. The issues of unemployment, poverty, black economy, choice of production technique, competitiveness, economic growth and ultimately the cohesiveness of families and of society are interlinked with the tax and benefit systems.

If this sounds too apocalyptic, in part two Parker introduces us to the seven deadly traps that create the foundation of the dependency culture. These are: the unemployment/income support trap, the invalidity, the poverty, the part-time, the lone-parent, the lack of skills and the savings traps. The first is the most familiar and

the most damaging. Since 1982, the unemployment trap has been replaced by the income support trap which, because it is means-tested, reduces incentives to save as well as to work. Benefit restructuring may have reduced the number of families facing marginal tax rates of above 100%, but high marginal tax rates (usually between 85% and 97% but occasionally as high as 134%) are a constant feature of life for families with a single earner on less than 75% of average male manual earnings. The larger the family, the wider the spread of earnings over which they are at risk of high marginal tax rates.

The poverty trap is concentrated at the bottom of the earnings distribution and remains a huge disincentive for economic advancement. Less space is devoted to the remaining five traps, partly because they are relatively new, but they are no less significant. The lone-parent trap is the one that many families with children will immediately recognise. Child care costs are high and in Parker's words: "Mothers who want to work face a lethal mixture of low wages, high tax and high work expenses." The part-time trap is one where the switch from part-time to full-time work produces only a minuscule gain in spending power. The lack-of-skills trap describes the case of people who face little incentive to better themselves by attending full-time training, for fear of loss of income support.

Part three is an eye opener. The scale of the problem is described. The number receiving Supplementary Benefit and latterly Income Support has doubled since 1978-79. In August 1993 more than one in six of the population depended on Income Support. By Department of Social Security estimates, the number of families in the poverty trap increased by over 40% between 1979 and 1993; but even those figures may understate the situation. This part of the book also makes the important link between the tax and benefit systems and the labour market. In 1979, semi-skilled and unskilled male manual workers were eight times more likely to be unemployed than male professionals, but by 1990 an unskilled manual worker was 21 times more likely to be unemployed. However, I would take issue with Parker's claim that no statistical link has been drawn between unemployment and the tax and benefit systems. Such a claim would deny the important work done by the Liverpool Macroeconomic Research Group, led by Patrick Minford at the University of Liverpool, or indeed the subsequent work by the Centre for Labour Economics at the London School of Economics, led by Richard Layard. Parker need not be defensive. Her case that government is killing the goose that lays the golden eggs assumes that such a link exists, and indeed it does.

Part four identifies the causes of the problem. They can be summarised as the combination of well-intentioned but flawed legislation; incoherent and piecemeal policy-making; and overlaps between the tax and benefit systems that result in greater rewards for leisure than for work. This section introduces the concept of Tax Regardless of Ability to Pay (TRAP). Changes in tax incidence have resulted in the perverse paradox that the bottom fifth of the income distribution pay 40 % of their incomes in tax compared with 35% paid by the top fifth. A policy of cutting income tax rates rather than raising income tax allowances, combined with rises in council taxes and rents and a flawed system of family income support, creates a socially explosive cocktail which encourages unemployment, poverty, the break-up of the family, juvenile crime and the underground economy

associated with the sub-culture of dependence. To be fair, Parker is careful not to claim that all of society's ills are related to the benefit and tax systems, but to this reviewer it appears a natural corollary.

The alternative to this Byzantium is based on five criteria, two of which I think are the most important: Simplicity and Efficiency. Full Basic Income (enough to live on) is recognised as too costly and the implications for marginal tax rates on work incomes would also be prohibitive on grounds of economic efficiency. The Basic Income Guarantee is put forward as a possible alternative. It is much lower than Full Basic Income and includes an income-tested housing benefit with a work or participation requirement. However, there is also the question of how to get from here to there, since even a Partial Basic Income cannot be introduced at a stroke. Parker proposes a transitional basic income (TBI), and this may well be the way forward. Using a computer model of the tax and benefit systems, simulations of revenue-neutral policies are carried out to show that the TBI can be a 'trampoline' rather than a 'trap', enabling families to springboard out of dependency. Rather than cutting the standard rate of income tax to 20%, the government could introduce a form of TBI which would leave unemployed families no worse off but with a mixture of basic income and income support.

There are many comments of a critical but, I hope, constructive nature one can make about this study. An important point is that the calculation of replacement ratios alone is insufficient to evaluate potential disincentives. A missing element is the life-cycle consideration, the implied inter-temporal consumption preferences of individuals, and the rate of discount. If a young person has a high preference for current consumption against future consumption or is willing to discount future consumption heavily, then current replacement ratios would be a good measure of disincentives. However, if a young person expects his/her future income to grow with the life-cycle, or their discount rate is low, even replacement ratios of above 100 per cent may not be a disincentive. This is of course why some people still work even though they are better off on the dole.

We may also question whether the part-time trap is really so undesirable. It may be viewed as strengthening family life to allow a married man (or woman) to work only part-time and so spend more time with their children.

Finally, without knowing the detail of the POLIMOD computer model used in the tax-benefit simulations which Parker relies on here, we would need to be assured that full general equilibrium welfare considerations have been examined in studying the implications of the TBI. These welfare considerations would include the short-term and long-term costs and benefits. They would allow for the costs of the greater take-up of TBI, but also the benefits of the migration from the 'black economy' to the 'regular economy', the economic costs of potentially higher income tax rates on existing workers, and the benefits of reducing government bureaucracy. While I share Ms Parker's view of the unhelpfulness of econometrics, Computational General Equilibrium (CGE) models may be the approach that should be taken in evaluating the advantages and disadvantages of TBI.

The issues dealt with in this book affect every member of society. It is a book that should be read by all interested

parties. It should certainly be compulsory reading for policy makers. The TBI is not a panacea, as Parker readily admits, but the important issues have been addressed here. We must thank Hermione Parker for getting the ball rolling. Let us hope that it will gather momentum.

Kent Matthews is Professor of Banking and Finance at the University of Wales, College of Cardiff, and Visiting Professor at the Katholieke Universiteit Leuven, Belgium.

Notes and references

1. Britain's safety net of last resort.
2. Hermione Parker, *The Moral Hazard of Social Benefits*, Institute of Economic Affairs Research Monograph No. 37, London, 1982.

Book Review

THE FUTURE OF PENSIONS: REVITALISING NATIONAL INSURANCE

Peter Townsend and Alan Walker
Fabian Society Discussion Paper No 22,
Fabian Society, 11 Dartmouth Street,
London SW1H 9BN, September 1995,
pp 29, ISBN 0 7163 3022 9, pbk, £10.

Also published as *New Directions for Pensions:
How to revitalise national insurance*,
Socialist Renewal Pamphlet No 2, European
Labour Forum, Bertrand Russell House,
Gamble Street, Nottingham, NG7 4ET, 1995,
pp 48, ISBN 0 85124 586 2, pbk, £1.50.

Chris Downs writes:

This Fabian Society discussion paper is of interest to supporters of Citizen's Income (CI), since it advocates a re-emphasis of the contributory principle, which may be seen in some respects as a directly competing approach. It is also of interest to private insurers, who are increasingly committed to providing pensions, administering or managing the funds of occupational schemes, and offering personal pensions. Indeed, pensions business at present accounts for about half of the £43 billion UK market for long-term insurance.

The authors set out to justify the UK's current contributory state pension system, and argue that the value of the pensions paid should be restored to the level that would now obtain, had uprating in line with average earnings been maintained since 1980. The base strand of their argument, on which all that follows depends, is that it would be affordable to do so. That is true: references to increases in the dependency ratio and the 'demographic time-bomb' are almost always misleading. The key question is not whether it is feasible but whether it is desirable.

The authors list the advantages of the flat-rate national insurance (NI) pension: it is effective in getting to the poorest pensioners; it is inexpensive to administer; it

minimises inequalities between older men and women; and it enhances social solidarity. However, all these attributes could equally be said to apply to a universal, non-contributory citizen's pension. Indeed, it might be argued that a citizen's pension would score more highly on all three criteria.

Other advantages are claimed for the NI pension, by comparison with the perceived alternatives: for example, occupational and personal pensions are said to be of no use to people without full labour-market careers, and also less secure. However, replacement of all state pension provision with private provision is not as yet part of the mainstream debate.

If the basic state pension is to become nugatory, then it must be expected that state support of the elderly will continue through a means-tested benefit. The question, therefore, is not whether a basic pension provided by the state is superior to reliance on the private market, but in what form the basic provision should be delivered. Should it be universal, contributory or means-tested? One of the criteria for judging this should be how it fits with complementary private provision. The authors make the case for state provision, but do not demonstrate that a contributory system is the best option.

The argument for reconstructing SERPS rests on the authors' critiques of the minimum pension guarantee (MPG) outlined in the Report of the Commission on Social Justice, and of private pension provision. Again, these should perhaps not be considered as alternatives. The MPG would be a means of ensuring a basic level of state pension provision for all, that is by some measure 'adequate'. But it would do this by introducing means-testing rather than by raising the basic pension itself. SERPS and private pensions, in contrast, are vehicles for adding to pension provision, over and above a basic level.

Though the authors report that the number of pensioners reliant on income support would be much smaller if SERPS had been allowed to mature in its original form, this cannot be a well-targeted way of achieving this result. For it would necessitate a higher payroll tax (NI contribution) in order to pay earnings-related pensions from which the biggest gainers are, by definition, higher earners.

It is important for government to choose appropriate policy instruments to achieve its various policy objectives, and there must be at least as many instruments as objectives.

Nick Barr has argued that a mandatory, income-related pension scheme such as SERPS is an appropriate policy instrument to ensure that individuals do not suffer an "unexpected or unacceptably large drop in their standard of living," which is the insurance objective.¹ But the objectives of poverty relief and poverty prevention are best pursued through a pay-as-you-go, flat-rate scheme such as the basic pension.

The objective of Barr's voluntary 'third tier' provision is to ensure that people are able to obtain the amount of cover they require. To this end it is crucial that the state system should not inhibit the functioning of the private market for additional pension cover. Yet the use of means-testing does just this: people who make small amounts of private provision simply disqualify themselves from

income support, or, under the MPG proposal, from the state's pension top-up. A disincentive to make private provision is introduced, and the MPG would make the futility of private provision for relatively low earners much more visible. If SERPS is ill-targeted and means-testing discourages people from making private provision, then a citizen's pension is a logical alternative and needs to be considered. At the beginning of their pamphlet, Townsend and Walker say that a citizen's pension "has much, in principle, to commend it and operates effectively in Denmark, but ... would entail too great a cultural shift for the British Treasury and financial establishment to contemplate". However, such a system might actually benefit the retail financial services industry, certainly by comparison with the MPG proposal.

Chris Downs is Manager, Political & Economic Research, at the Association of British Insurers. This review is written in a personal capacity. The views expressed should not be taken as any indication of the views of the Association or its members.

Reference

1. Nicholas Barr, *Social Risks and Insurance: An Economic Perspective*, in Silburn R. (ed), *Social Insurance: The Way Forward* (The Proceedings of the First Annual Social Security Seminar). School of Social Studies, University of Nottingham, 1995.

Book Review

EVERY ONE A KING:

An investigation into the meaning and significance of the debate on basic incomes, with special reference to three episodes from the British inter-war experience

Walter Van Trier

New Series of Doctorates in Social Sciences, No. 22, 1995, Catholic University of Leuven, Department of Sociology, E. Van Evensstraat 2B, 3000 Leuven, pp 500, ISBN 90 6784 123 4, pbk, unpriced.

Susan Raven writes:

In this monumental work — 476 close-printed pages plus 24 pages of bibliography — Walter Van Trier sets himself to answer the question, where did the modern idea for basic income (BI) come from and where is it going? He mentions, but leaves on one side, its early origins in the work of Thomas Paine and Thomas Spence, and late Victorians like William Morris and Edward Bellamy (author of the prophetic novel *Looking Backward*, published in 1888); fascinating though these writers are, Van Trier believes that the BI concept only becomes significant with the arrival of the modern economy in the early 20th century.

So he confines himself to the period between 1917 and the Second World War, when BI — or something similar to what we now know by that name — became the

subject of informed debate at least three times: between 1917 and the early 1920s under the name *State Bonus Scheme*, the brainchild primarily of Dennis and Mabel Milner; in the 1920s the *National Dividend* associated with Major C.H. Douglas and the Social Credit Movement; and James Meade's *Social Dividend*, which made its first appearance in 1936 (and re-emerged subsequently in Meade's *Agathotopia* of 1988). Our own BI scheme, descended from Lady Rhys Williams MP through her son Sir Brandon Rhys Williams MP to Hermione Parker, gets a mention, but is outside Van Trier's self-imposed timespan.

What particularly puzzled the author when he began his research was that in every case, when the debate ran out of steam, the very concept of BI appeared to vanish not only from the popular memory (even when guilds and clubs had been founded to spread the word) but from intellectual consciousness. When the next BI scheme came along, it never acknowledged any awareness of, let alone any debt to, the scheme which had preceded it. Van Trier compares the BI concept to Lewis Carroll's Cheshire Cat, which emerges out of nowhere, and disappears bit by bit, leaving only its smile behind, until that too disappears. Where does the idea of BI come from? Why does it vanish? *Every One A King* is an attempt to resolve these mysteries.

The author does not claim that he has written a full history of the varying fortunes of BI, but he has delved deep in archives and newspaper libraries and brought into the light a substantial chunk of the early 20th century. Along the way we meet a huge cast of famous and not so famous figures: Keynes, the Webbs, Beveridge and Hugh Gaitskell among the economists and other academics, alongside politicians and writers and assorted eccentrics. There's even a gangster — Huey Long appears in one of Van Trier's substantial footnotes. (Nor is Shakespeare forgotten: Mark Antony is quoted on the subject of Julius Caesar's will. Van Trier suggests, not very plausibly, that it offers an early example of BI.)

Dennis Milner and Major Douglas both started life as engineers; each was helped and promoted by others — Milner primarily by Bertram Pickard and Douglas by the well-known editor A.R. Orage of *The New Age*. A large number of literary lions put in an appearance — Ezra Pound, G.B. Shaw, Hilaire Belloc, G.K. Chesterton, J.B. Priestley. The architect Lewis Mumford, the Nobel prizewinning chemist Frederick Soddy, the notorious 'Red Dean' Hewlett Johnson all have walk-on parts. So too do Bertrand Russell and Alfred Russell Wallace. And a crucial role in the Social Credit Movement was played by John Hargrave, a former Boy Scout commissioner (at one time he looked likely to take over from Baden-Powell) who devoted his energies to the Kindred of the Kobbo Kift, the Economic Party, the Legion for the Unemployed and the Green Shirt Movement for Social Credit. And there is G.D.H. Cole, whom Van Trier identifies as the one person who had something to do with all three of the schemes he discusses.

Throughout the period the author disentangles a strong Quaker connection. It seems possible that Dennis Milner's divorce and remarriage to an American, with whom he went to the United States, meant that he lost his 'base' in the Quaker community and thus himself contributed to the weakening of the State Bonus League which had sprung up in the early 1920s to propagate his ideas.

Meanwhile Van Trier makes an excellent case for the Milners. They did not write much, but they were eloquent and persuasive, and what they had to say still makes sense today: their work is an important rediscovery. So is that of their principal commentator, Bertram Pickard. The Milners' proposals were considered at the 1921 Labour Party Conference, and it is a great pity they got no further.

Unfortunately the book has run away with the author. It has ended up about twice as long as it need have been. I leave on one side the imperfect English (though it is a pity the author did not get a native English speaker to read it), which has its charms and for which Mr Van Trier should perhaps not be blamed (I liked 'wiggish', which I think must be 'Whiggish' — and 'attend the reader to' for 'draw the reader's attention to'). All the same it's a mistake to have a title which does not have the right nuance in English ('Every One' should be one word, 'Everyone'), and there are too many misspellings of proper names. Even worse, for a book in which the author so often says that he will be returning to such and such a subject later, or refers to what he wrote in a previous chapter, there is no index. That is not merely outrageous, but cruel.

Book Review

THE FIVE GIANTS: A BIOGRAPHY OF THE WELFARE STATE

Nicholas Timmins

Harper Collins, 1995, 606 pages,
ISBN 0 00 255388 0, hbk, £25.00.

Hermione Parker writes:

This massive work by *The Independent's* Public Policy Editor tells the story of Britain's welfare state from Beveridge to the present time, much of it in great (and useful) detail. Looking quickly through the excellent index, I could find no reference to Basic Income or Citizen's Income, nor even negative income tax. Instead they are hidden away under 'income guarantee schemes', starting with the Labour Party's proposal, during the run-up to the 1964 general election, for an 'income guarantee' for pensioners.

Timmins describes this guarantee as "the first of what have so far proved largely doomed attempts to bring together tax and social security. While the schemes vary enormously in both detail and impact, the essential aim of Labour's income guarantee, Heath's tax-credit scheme, and a stack of parallel ideas such as Citizen's Income and negative income tax is to integrate the tax and social security systems so that everyone faces just one assessment of their means ... This beguilingly simple idea foundered on the harsh realities that were later to frustrate the Conservatives' tax-credit scheme and, at least to date, all other attempts to rationalise what at first sight seems a needlessly complex system" (p 226).

Here I am bound to say that he is out of his depth, or maybe he just talked to the wrong people, for he is

repeating a common illusion. Negative income tax, like the stream of benefit top-up proposals (means-tested benefits in all but name) that have issued from the Adam Smith Institute, the Institute for Fiscal Studies, the Social Democrats and more recently the Liberal Democrats, is incompatible with integration of the tax and benefit systems. For it imposes regulatory regimes that are different for taxpayers and beneficiaries. By contrast, Basic Income (like child benefit) works through regulations that are the same from top to bottom of the income distribution. So we all become equal citizens.

With negative income tax the assessment unit is the individual or married couple for taxpayers, but the family or in some cases the household for beneficiaries — a much tougher régime. The accounting period is the year for taxpayers, but the week (or month) for beneficiaries. Even the definition of income is likely to be different; certainly it was different in the negative income tax experiments in the United States, where income for NIT purposes even included prize money. Timmins does not make these differences clear, although they are a key part of the argument.

Nor does he mention the intense political opposition to Basic Income, particularly from upholders of the traditional work ethic — what Barrie Sherman elsewhere in this Bulletin so rightly calls the 'employment ethic' — and from 'Turks' (mainly but not exclusively men) who (correctly) foresee that any BI, no matter how small, will redistribute income from men to women as well as from 'haves' to 'have-nots'.

The good news is that later on in the book, when discussing Sir Norman Fowler's Review of Social Security, Timmins recognises that 'many Conservatives still hankered after tax credits' (p 400). Fowler, as is well known, had wanted to include personal taxation within the terms of reference for his Review. It was Nigel Lawson, then Chancellor of the Exchequer, who would have none of it. Or was it? Is that certain? Or was it the Treasury mandarins? Which brings us back to Christopher Monckton's article in CI Bulletin No 16 in which he blamed the Treasury. From his position in Lady Thatcher's Policy Unit he should know and he says they opposed BI because it would involve changing their antediluvian accounting techniques.

This is such a good book that it may well run to a second edition. In that case, let us hope that the author will consult Citizen's Income Trust, in order to set these relatively small parts of the record straight.

Unless the Treasury is forced to mend its ways, it will always block the consideration of any universal benefit scheme, erroneously believing it to be in all circumstances unaffordable.

Christopher Monckton in : *CI Bulletin*
No. 16, July 1993.

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 know of something you think is relevant, please send a copy to the Editor, c/o The Citizen's Income Study Centre, St Philips Building, Sheffield Street, London WC2A 2EX.

A Working Britain: A Design for a Market Economy, Keith V. Roberts, 2nd Edition, September 1995, The Michelmers Press, Old Michelmers Farm, Church Road, Michelmers, Romsey, Hampshire SO51 0NR, tel 01794 368387, fax 01722 323222, 129 pp, pbk, £5.00.

Keith Roberts was a key member of the Basic Income Research Group from its beginnings until his untimely death in 1985. A physicist by training and profession, Keith also developed a keen interest in economics. Foreseeing the likely effects of automation, micro-electronics and robotics on national economies, he set out to tailor the positive attributes of the market economy for the good of humanity, by adapting it to allow for a decline in the demand for human labour. In the 1980s, his written work had considerable influence on the burgeoning BI debate in Europe. The Western free-market system needs redesigning, he used to say, and BI offers an alternative model which 'combines the compassion of the Welfare State with the efficiency of the free market'. At £5 this new edition of his book is particularly good value and highly recommended.

A Future for Homo Sapiens? Peter Garrington, Orchard Publications, 2 Orchard Close, Chudleigh, Newton Abbot, Devon, TQ13 0LR, 1994, 122 pp, ISBN 1 898964 07 6, pbk, £6.95.

This readable little book is described by its author as "the attempt of an old Hodge to save an endangered species from destroying itself and its environment, by introducing an economic system that meets its needs and rebuilds and preserves its environment, producing a near-Utopian State where basic human rights are available to all". Readers of this Bulletin will quickly identify the message. Hodge is an old English word for countryman or rustic, but Peter Garrington is no ordinary hodge. He is an agricultural educationalist and former principal of an agricultural college. "Live each day as if it is your last", he says, quoting an old farming adage, "but farm as if you are going to live for ever ...". During the last three hundred years industrialisation and the economic system needed to run it have destroyed more of the world's environment than in the previous 30,000 years: a process which has to be reversed. Political power should be about organising society in such a way that everyone's basic needs are matched by the wealth of that society. Instead, the speed of modern communications has weakened the power of national politicians and we are all part of the main society of the world. It therefore falls to the United Nations to play a major part in controlling the activities of *homo sapiens*, if the world environment is to be repaired and improved and given a chance to survive. First priority is reform of the financial system. World financial markets have become frenzied gambling shops that bear little relationship to human needs and world trade. Garrington recommends a world economic

order under the control of the United Nations; the establishment of a single world currency; and worldwide distribution by the UN of the equivalent of a Basic Income sufficient to satisfy basic human needs. Given the problems associated with a single currency within the European Union, and the limited capacity of the United Nations to operate effectively, this commentator thinks that a regional approach might be more practical — perhaps along the lines suggested by Professor Gunnar Adler-Karlsson in *CI Bulletin* 19 (VIEWPOINT). Be that as it may, Peter Garrington's book is good reading, timely and stimulating.

Citizenship and Social Rights, Fred Twine, Sage, 1994. Also **Class and Gender Inequality and the Social Right to a Basic Income**, Fred Twine, Department of Sociology, Aberdeen University, Aberdeen Scotland AB9 2TY, paper presented at the European Sociological Association Conference, Budapest, August 1995.

Here are two important contributions to the debate about Citizen's Income, especially its consequences for women and (by implication) family life. The concept of citizenship, it is argued, requires a social right to welfare, but not all welfare provisions meet the criteria of a social right. The best embodiment, to date, is to be found in proposals for a Basic Income. If social rights are to be citizens' rights and not merely rewards for paid work, they must be detached from labour market participation. Women are particularly at risk when social rights are built around labour market participation. CI would help to break the link between income and paid work. Instead the multi-stranded relationships between human beings would start to be recognised.

Negative Income Tax: Not a Panacea, Volker Meinhardt, Dieter Techmann and Gert G. Wagner, in *Economic Bulletin*, Deutscher Institut für Wirtschaft, 31 (12), 1994, pp 35-40.

A rigorous discussion, based on arithmetical simulations, of different negative income tax proposals being discussed in Germany. The authors argue that the system would be complicated to administer and would increase moral hazard. Better to raise child benefits to the levels applying to Sozialhilfe / social assistance (cf UK income support). Your Editor could not agree more!

Justice, Freedom and Basic Income, Brian Barry, in *The Ethical Foundations of the Market Economy* (Horst Siebert ed.), J.C.B. Mohr & Ann Arbor, University of Michigan Press, 1994, ISBN 3 16 146232 7, pp 61-89.

The editor of this volume is one of the most articulate German opponents of BI. However Professor Brian Barry takes the view that "under contemporary conditions justice and freedom would best be realised by the provision of a basic income to the citizens and permanent residents of countries in which the appropriate conditions exist", for instance an effective and uncorrupt public administration and a citizenry that is used to paying taxes. "The beauty of BI," says Barry, "is that even its partial implementation would gain part of the advantages."

A Sustainable Economy for the 21st Century, Juliet Schor in Westfield (NJ): Open Magazine Pamphlet Series £31 (PO Box 2726, Westfield, New Jersey 07091), April 1995, 30 pp, ISBN 1 884519 11 3.

In this pamphlet published by the 'New Party' (to the left of the Democrats), the Harvard economist and author of the best-seller *The Overworked American* (1992)

recommends a basic income grant that would allow people to opt out of the labour market "for a while". Author's address at present is (perhaps appropriately): The Department of Leisure Studies, Tilburg University, PO Box 90153, NL — 5000 LE Tilburg, Netherlands.

Unemployment Forever? A Support Income System and Work for All, Allan McDonald, A & D McDonald. PO Box 280, Urangan, Queensland, 4655, Australia, 1995. 148 pages, ISBN 0 646 25910 6, \$14 postage free within Australia.

So long as Australia sticks to existing political and economic dogma, there will be increasing unemployment, alienation and social crises. The existing social security system is adding to unemployment. The main part of this book is a revised version of McDonald's thesis **A Support Income System for Australia**, completed in 1991 and awarded an MPhil from Griffith University in 1992. Wages, it is argued, comprise a needs-based component and a skills-based component. With BI as proposed here, employers will remain responsible for the skills element, while the state assumes responsibility for the needs element. Therefore wage earners will receive their income from two sources. To facilitate this change, two steps are necessary: first, wage rates must be reduced by an amount related to the needs-based component; second, employers must transfer this saving in labour costs to the state. In theory this extra revenue will provide the state with the finance necessary to extend payment of the BIs beyond those in the labour force. Part One deals with labour market considerations, Part Two with social welfare implications and Part Three with taxation and finance, including the costing of the proposal and its distributional effects.

Arbeit und Einkommen nach der Vollbeschäftigung / Work and Income after Full Employment, Georg Vobruba in *Leviathan*, Zeitschrift für Sozialwissenschaft, Free University of Berlin, Knesebeckstrasse 17, D-10623 Berlin, Volume 23, No. 2/1995. In German.

A plea for introduction of a negative income tax (somewhat confusingly referred to as Basic Income), in order let people combine part-time work with benefit. Vobruba, like other German writers currently in favour of negative income tax, seems to underestimate its limitations. Yet Britain's Family Credit, which is effectively a work-tested negative income tax for families with children, is also a main cause of the poverty trap. Although it encourages families to take lower paid work, it does not give them economic independence.

Measuring Poverty: A New Approach, Constance F. Citro and Robert T. Michael (Eds), National Academy Press, Washington, D.C., 1995, 501 pages, ISBN 0 309 05128 2, hbk. Summary and Recommendations also available in limited quantities from the Committee on National Statistics, 2101 Constitution Avenue, N.W., Washington, D.C. 20418.

This important publication updates and revises a measure of poverty in the United States of America that was over 30 years old. It is a huge piece of work, involving the Panel on Poverty and Family Assistance (Concepts, Information Needs, and Measurement Methods); the Committee on National Statistics; the Commission on Behavioral and Social Sciences and Education; and the National Research Council. The terms of reference were to "address concepts, measurement methods, and information needs for a poverty measure, but not necessarily to specify a new poverty 'line' " (p xv). The old poverty measure started from a set of income thresholds which, when compared with families'

The old poverty measure started from a set of income thresholds which, when compared with families' resources, were used to determine whether or not they were poor. The thresholds differed according to family size and composition and the resources were the families' annual before-tax money incomes. However the thresholds were originally developed in the 1950s, and were basically the cost of a minimum diet times three. This multiplier of three was supposed to allow for expenditure on all other goods and services. In 1955, it represented the after-tax money income of the 'average' two-adult, two-child family, relative to the amount spent on food. By 1963, it was \$3,100. However, in the 1970s and 1980s the thresholds were only adjusted in line with prices, not earnings, so by 1992 the threshold of \$14,228 no longer accorded with expenditure patterns and changes in disposable income. The recommended new poverty measure comprises a budget for food, clothing and shelter (including utilities), plus a small additional amount for other needs (e.g. households goods, personal care and non-work-related transport). It is also recommended that actual expenditure data be used to develop a threshold for the reference family (two adults and two children); that the new threshold be updated annually in line with changes in spending on food, clothing and shelter over the previous three years; and that it be adjusted for different family types and geographic areas of the US.

For readers of this Bulletin two points are worth emphasising: first, price indexation does not protect living standards at the bottom of the income distribution for more than a few years at a time; second, there is a strong case for linking CI proposals to scientific research into needs and living costs.

Jobs, Work and Citizen's Income: Four Strategies and a New Regime, David Purdy, Department of Social Policy, University of Manchester, 1995, 65 pp.

In this paper written for the European University Institute in Florence, David Purdy argues that work includes unpaid work and the best way to tackle the jobs crisis is by making everyone less dependent on the labour market. This would encourage men to spend more time with their families and women to gain greater financial independence. Purdy's aim is a society at ease with itself. The paper has five sections. The first examines the different kinds of work that keep society going. The second provides an overview of post-war economic policy. Sections 3 and 4 examine four alternative strategies for reducing unemployment. Section 5 sets the scene for and examines the pros and cons of Basic Income capitalism in what the author calls a Citizen's Income Democracy. "The critical issue," says Purdy, "is what kind of policy regime can best secure the social rights of citizens without endangering economic prosperity." At each stage in the transition to Basic Income capitalism, "a balance must be struck between personal freedom, economic constraints and cultural norms." The level of CI is an open question and has at least as much to do with politics as with economics.

The Problem of Lone Mother Families in Twentieth Century Britain, Jane Lewis, Discussion Paper WAP/114, Welfare State Programme, STICERD, London School of Economics, Houghton Street, London WC2A 2AE, August 1995, 52 pp, pbk, no charge.

The principles underpinning state support for lone mothers in the UK are examined at four 'turning points' in the 20th century: 1911-25, when 'endowment of motherhood' and 'mothers' pensions' were debated; the

1940s, when Beveridge tried to fit lone mothers into his national insurance scheme; the 1970s, when the *Finer Report on One-Parent Families* was produced; and the 1990s, when lone mothers have been vilified. Given the well-known difficulties within the CI framework of combining adequate BIs for lone mothers with symmetry between married and single, the background material in this study is extremely useful.

The Future of Pensions: Revitalising National Insurance, Peter Townsend and Alan Walker, Fabian Society Discussion Paper No 22, Fabian Society, 11 Dartmouth Street, London SW1H 9BN, 1995, 29 pp, ISBN 0 7163 3022 9, pbk, £10. See **Book Review by Chris Downs**.

New Directions for Pensions: How to Revitalise National Insurance, Socialist Renewal Pamphlet No. 2, Peter Townsend and Alan Walker, European Labour Forum, Bertrand Russell House, Gamble Street, Nottingham, NG7 4ET, 1995, 48 pp, ISBN 0 85124 586 2, pbk, £1.50.

This is an enlarged (but less expensive) version of Fabian Society Discussion Paper No 22 noted above. It was published with the support of the National Pensioners' Convention (a grassroots movement with some 1.5 million members) and was motivated by the authors' shock at statements issued on behalf of the Labour Party last September, implying that a (means-tested) Minimum Pensions Guarantee (MPG) was about to be recommended as official Labour Party policy. The authors' preferred solution is a higher national insurance pension, uprated with earnings instead of prices, and a reorganisation of the State Earnings Related Pension (SERPS). "The case for collective or national insurance schemes to foster social stability, economic prosperity and personal and social security for each generation, and to reduce growing equality and impoverishment, has never been stronger," they say. For CI supporters this analysis is worrying but necessary reading, if only to help stake out the debate. Whilst recognising that people with interrupted employment histories (usually but not always women) do badly out of insurance pensions, and whilst praising Denmark's citizen's pension (p 33), the best they have to offer is more national insurance. Worse still, they would like to confuse the issues by calling their higher national insurance pension a 'Citizen's Pension'! Noticeable for its absence from this pamphlet is any quantitative analysis of the distributive effects — between rich and poor, men and women, able-bodied and disabled — of the pension options they prefer. (See also: Jay Ginn *Citizen's Pension and Women*, pages 10-12 of this Bulletin).

Citizen's Income: An Engineer's Perspective, Leo Smith and Sue Kimber, Lark's Rise, Park Gate, Wickhambrook, Newmarket, Suffolk CB8 8UT, in Newsletter Vol 7 No. 2 Aug/Sept 1995, of the Own Base Association, a mutual support network of people working from home. Sue Kimber is its Editor, Leo Smith is an engineer by profession.

Here they emphasise the potential of CI for people at the edges of the labour market. "By openly removing the connection between labour and wealth, poverty would be reduced, wealth improved and enormous amounts of futile human activity curtailed." They also advocate a tax and benefit system that is people-friendly: "If we presuppose the function of social activity to be to benefit the members of society, then surely all we need to do is to provide adequate opportunity for people to benefit themselves: good engineering does not set its components

beyond breaking point. It uses them in a way that is sympathetic to their natures. When wealth, and hence economic power and status, are passed back to the citizen as a basic right, the citizen becomes re-enfranchised."

Full Employment Regained? An Agathotopian Dream, J.E. Meade, University of Cambridge, Department of Applied Economics, Occasional Papers 61, Cambridge University Press, 1995, 94 pp, ISBN 0 521 55327 X hbk, ISBN 0 521 55697 X pbk.

"Have we given up trying to gain Full Employment? If not, what should we be trying to do about it?" Within months of his death, James Meade returned to these questions in this short and readable book. Full employment without unacceptable inflation or poverty requires a whole series of radical reforms: low real wage rates offset by universal Citizens' Incomes, the abolition of national insurance contributions, labour-capital partnerships and more progressive tax rates. Although much of the content of the book is contained in his previous writings (*Liberty, Equality and Efficiency*, Macmillan, 1993; *Fifteen Propositions*, Employment Policy Institute, 1993; and *Full Employment without Inflation*, Employment Policy Institute and Social Market Foundation, 1994), the exposition here is particularly readable. Appendix B (*A Diagrammatic Representation of a Citizen's Income Financed by a Withdrawal Surcharge*) also helps to explain the marginal tax rates that a CI might involve.

Hitting the Target: A Blueprint for Applying Conservative Values to the Benefit and Tax Systems, Julian Brazier MP, The Conservative 2000 Foundation, 2 Wilfred Street, London SW1E 6PH, 1995, 20 pages, pbk, £5.00.

Instead of promoting independence and containing costs, benefit targeting (in its present form) promotes dependency and discriminates against self-provision. Recent publications provide a wealth of analysis but a dearth of reform proposals. This paper aims to fill the gap. Although short on detail it makes a vigorous case for increased family income support and less mean-testing of the elderly. Citizen's Income (somewhat misleadingly referred to as 'minimum income') is described as having "several advantages but also some serious drawbacks" (p 15). Unification of the tax and benefit systems would help to eliminate the poverty and unemployment traps, but in its normal form, says the author, CI would also mean "abandoning attempts to reward positive behaviour such as working, saving and self-help ... Positive conditionality, whether to save, to work or indeed, for those rearing children, to marry, should in this author's view play an important role in formulating proposals (p 16) ... Britain will only unshackle the chains of poverty when the tax and benefit systems encourage all of us to take responsibility for our futures (p 20)".

The Political Debate over Policy, Insurance Trends, Association of British Insurers Quarterly Statistics and Research Review, Issue No. 7 October 1995.

In the final paragraph of an article entitled **The political debate over pensions policy**, the authors conclude that private pension providers should welcome a universal, non-means-tested basic pension (a Citizen's Pension in all but name) because it would provide the under-pinning for voluntary savings which means-tested benefits tend to erode. It would also be simpler to

understand and "allow people to make better informed judgements about what they needed to acquire from the private market" (p 10). Coming from the private sector this comment is of particular interest and importance.

The Five Giants: A Biography of the Welfare State. Nicholas Timmins, Harper Collins, 1995, 606 pages, ISBN 0 00 255388 0, hbk, £25.00. Highly acclaimed history of the welfare state from Beveridge to the present day. See **Book Review by Hermione Parker.**

Licensed to Work, Barrie Sherman and Phil Judkins, Cassell, 1995, 221 pages, ISBN 0 304 33371 9, hbk, price £12.50, ISBN 0 304 33372 7, pbk. An examination of the impact of technological change on employment and society, together with proposals for change. See **article by Barrie Sherman and Phil Judkins, page 2 of this Bulletin.**

Taxes, Benefits and Family Life: The Seven Deadly Traps, Hermione Parker, Research Monograph 50, Institute of Economic Affairs, 2 Lord North Street, London SW1P 3LB, September 1995, pp 149, ISBN 0 255 36270 2, pbk, £12. Tax and benefit changes in the UK since 1979 have produced a cumulative process of increasing disincentives and weakening family life. The present tax and benefit systems should be replaced by a judicious combination of Basic Incomes and income-tested benefits. See **Book Review by Kent Matthews.**

Every One a King: An Investigation into the Meaning and Significance of the Debate on Basic Incomes, with Special Reference to Three Episodes from the British Inter-war Experience, Walter Van Trier, New Series of Doctorates in Social Sciences, No. 22, 1995, Catholic University of Leuven, Department of Sociology, E. Van Evensstraat 2B, 3000 Leuven, 1995, 500 pp, ISBN 90 6784 123 4, pbk, unpriced.

Publication of this doctoral thesis completes the author's researches into the history of Basic Income from World War 1 to World War 2. For students of Basic Income in the first half of the 20th century, it is an invaluable source of reference. See **Book Review by Susan Raven.**

Think the Unthinkable, Mr Smith, *The Independent*, 9 November, 1995.

Once again the British Labour party has a new social security spokesman, once again the Labour leader has told him to think the unthinkable, and once again the search is on for a modernised social security system. Labour's leader is Tony Blair and his new social security spokesman is former Treasury spokesman Chris Smith. Tony Blair comes with a range of soundbites — "a hand-up, not a hand-out" — but without a convincing set of principles or policies. Smith is further hampered by Labour's terror of announcing anything that could be seen to increase taxes. So *The Independent* presented him with four scenarios for change: (1) *Reformed, semi-privatised national insurance*: advocated by Labour MP Frank Field (see Book Review in CI Bulletin No 19, by Dominic Hobson); (2) *Citizen's Income*: odds against a full CI are high, but "partial schemes may emerge"; (3) *Painful evolution*, the approach that informed the Labour Party's Borrie Commission, the Liberal Democrats' Dahrendorf report, and the independent Joseph Rowntree Foundation enquiry: painful

(predictably), achievable and the lines down which Labour is most likely to go. (4) *Cut and Squeeze*: more private provision and more means tests. Backed by the present Government, so happening now.

A Budget to Spring the Poverty Trap, Hermione Parker in the Family Policy Bulletin, November 1995, copies available from the Family Policy Studies Centre, 231 Baker Street, London NW1 6XE, tel 0171-486 8179.

A new approach to taxes and benefits, incorporating a transitional Citizen's Income, could begin to reverse the marginalisation of the poor and give families with children the help they need. A useful introduction for newcomers to the CI debate.

The Escape Route for the Trapped Briton, Hermione Parker in Parliamentary Brief, December 1995, Vol. 4 No. 3, 16-18 Strutton Ground, London SW1P 2HP (a journal aimed at policy makers).

It is becoming increasingly obvious that social security spending in the UK is out of control and that the residual (means-tested) welfare state is a disaster. It is less obvious that the nub of the problem is not over-generous benefits, but incoherent policy-making, with the Treasury picking off one government department at a time and the role of the Department of Social Security transformed from one of poverty prevention to one of poverty relief. This year, at earnings of £150 a week (just over half average male manual earnings) direct tax liability for a couple is an incredible £34. With less tax and higher child benefit, means-tested benefits would be unnecessary. It is unlikely that a lasting solution can be found without a top-level, interdepartmental review, although the House of Commons could help by using the Select Committee system to institute an enquiry of its own. In 1982-83 a Sub-Committee of the Treasury and Civil Service Select Committee called for 'joint departmental planning of the medium and long-term future of the tax and benefit systems,' but its recommendations went unheeded. Since 1982 much quiet research has been done at the London School of Economics and at Cambridge University. Whereas a 20% basic rate of income tax (the present government's target would at best be incentive-neutral, a £20 a week Citizen's Income (costing the same) would increase incentives at the bottom of the income distribution and strengthen family life.

Newsletter of the Basic Income European Network (BIEN), Nos 21, 22 and 23, December 1995, 39 pp. Normally published three times a year, this bumper edition, edited by Philippe Van Parijs, brims with information about past and future events, including this year's BIEN Congress in Vienna (see **Outside Back Cover of this Bulletin**), and 25 pages of book reviews. BIEN is now on e-mail, so the Newsletter can be despatched free of charge to anyone with an e-mail address who would like to receive it. For further details see **Home and Abroad: BIEN Reorganised**.

Excerpts from the National Press

Meghnad Desai in the Observer, 13 August, 1995

Remember the moment in *Psycho* after the gruesome shower murder when Anthony Perkins is cleaning up with a mop, saying "See what a mess you got yourself into, mother," etc. The viewer is supposed to think that his mother made the mess, not young Tony. The recent statement by Peter Lilley about the growth of dependency reminded me of that scene — because Lilley seems to think the welfare state is a mess of someone else's making. There are the Tories railing about the bloated welfare state for 16 years, promising to cut waste and hunt out scroungers, and look what happens. In real terms the budget of the Department of Social Security is 80% higher than in 1979. One in three families receive means-tested benefits. Appalling, isn't it?

Well, not really, if you ask me. For one thing, welfare expenditure will go up if you believe that the economy needs to be leaner and fitter and if you believe, naively, that the only cure for unemployment is to cut benefits yet more drastically. If there are no jobs out there, it is no use exhorting people to get on their bikes. Those not employed or on inadequate benefits will have to be caught by one of the safety nets.

Add to this list those encouraged by the Government to claim sickness benefit so they would be off the unemployment register, plus those paid low wages in work so that they need family credit as well, plus those living in privatised rented accommodation which housing benefit has to subsidise. The monster is a carefully crafted creation ... But why stop at social security recipients? There are many fatter cats who also receive means-tested benefits. Your mortgage relief is also a hand-out but it is revenue foregone rather than payments made. Relative to the £90 billion social security budget, the foregone taxes cost around £60 billion. We are all on benefits now although some get to be more indignant about it than others. When the rich get handouts they are called incentives, as in tax concessions for share options. When the poor get them it is called scrounging.

It has been common knowledge for the past 25 years that the benefits system is a disincentive to work ... Now every report on the welfare state — Borrie, Dahrendorf, the Select Committee on Social Security — concurs. An unemployed person when offered a job faces marginal tax rates of 80 per cent and more. Now we have had all sorts of tax reforms and tax cuts for the rich and the enterprising but not one Tory Chancellor has moved an inch over the disincentive effects of the welfare state. And then Lilley complains about dependency!

The welfare state is not only expensive, it is also mean and an invasion of privacy. It has been a failure at tackling poverty but the reason is its meanness, not its generosity. Every time a pound is given out, rules are set up to make further complications and thus encourage devious behaviour ... The answer is not to set up a fraud watch, a trap into which the Labour Party seems to have fallen, but to address the anomalies and complications of the systems ...

The answer is to make the welfare state universal and unconditional. There is a small but growing movement across Europe which supports the idea of a basic or citizen's income. The notion is to give every person eligible to vote a fixed sum per week, no questions asked. Let us say this is £50. If you are an income taxpayer, it gets added to your tax liability. If not, you pay on the margin only if your total income, including the basic income (BI), puts you over the threshold. Once you have BI, you do not need unemployment benefit or pensions, sickness or invalidity benefit, or widows' pensions. Since men and women, married or cohabiting, will be paid equal amounts, the poverty trap will be relieved.

Income support and family credit can also be replaced. These benefits require one or another sort of proof from the recipient, on whom the burden of proof falls. They are also gender biased since the spouse, usually the woman, gets a fraction of what the principal claimant gets. A BI will remove all the disincentives that prevent claimants returning to work. Since your entitlement is not affected whether you have a job or not, there is no loss of income when you take one. Many people — artists, actors, students, trainees — will be happy to take the basic income and work part-time on the margin. Indeed, some may drop out of the labour market altogether. As there is a job shortage in any case, leaving voluntarily without being impoverished seems to be the answer. Even the minimum wage question loses its force if you have a BI, since a floor is guaranteed. Beyond that, if you take a low-paid job, it is simply to top up your income.

Of course, the strong argument against BI is cost. There are horror stories about it requiring a basic rate of income tax around 80 pence in the £. But this is an exaggeration. If BI replaces many existing benefits, then one can view this as redistributing the existing budget.

The total cost of a £50 BI is not small, it comes to about £115 billion. Roughly half of this can come from the existing budget. The rest has to be found. There will be some saving on administration and a small amount will be clawed back in income tax paid by those above the threshold. But these are unlikely to come to more than £5 billion. The remainder has to be found, but it need not be put on the basic rate of income tax. Tax concessions, such as mortgage interest relief and many others, were costed in the 1992 Budget at £90 billion. The Budgets since then have dropped this table. But it is possible to examine these more carefully. Thus personal income tax allowances cost £32 billion in tax foregone in 1992, and the zero rating of VAT on many goods costs around £15 billion ...

At the margin, even if the basic rate of income tax has to go up, it will not be by anything like 80%. What is more, it was the craze for income tax cuts that created the inequalities of the 1980s which, in turn, drove many into the dependency culture. It is the fetish made of income tax that has brought the welfare state to its present sorry pass.

The only way out is to tackle the entitlement issue first and do it in a way that is effective, as well as liberating, for all citizens. The many other solutions at hand will only make life more squalid for those at the bottom while protecting the hand-outs that the better off receive. All of us need to end our dependency — the rich, the middle classes and the poor.

Independent Leader, 4 September, 1995

This morning John Major, Kenneth Clarke and Peter Lilley should be on the phone to the Institute of Economic Affairs ordering up copies of the IEA's latest publication.¹ They will find Hermione Parker's study of the combined effects of taxes and benefits on family life and work incentives shaming reading.

Far from improving work incentives over the past 15 years, the Government — despite its high-blown rhetoric about ending the culture of dependency — has worsened them. It has achieved the remarkable feat of both making life tougher for those on out-of-work benefits and making it harder for them to get back into work. By trimming away at the benefits which provide platforms on which people can build earnings and savings, by increasing means-testing, by insisting on retaining a system that requires people not to work and, in large measure, not to train in order to receive benefit, social security expenditure is reaching a position that is simply unsustainable. From being a system aimed at preventing poverty by helping people to help themselves, social security is increasingly becoming a programme simply of poverty relief for millions below retirement age.

Today's study comes on top of recent Government statistics which revealed the alarming fact that one in four families now receives at least one of the major means-tested benefits. This is not a position in which a modern, competitive society can afford to find itself. And across the political divide there is a growing recognition that this is true.

Answers, needless to say, are harder than the definition of the problem. Hermione Parker's solution is another attempt at the basic income guarantee — an idea on which both Labour and the Conservatives worked long, hard and largely fruitlessly in the Sixties and Seventies. It is a revolutionary answer but one on which much quiet academic work has been done in recent years. It may be too revolutionary. To be implemented, it would require cross-party support. *The time has surely come for another close examination of it ...*

References

1. Hermione Parker, *Taxes, Benefits and Family Life: The Seven Deadly Traps*, Institute of Economic Affairs Research Monograph 50, available from Institute of Economic Affairs, 2 Lord North Street, London SW1P 3LB, £12.

A universal, non-means-tested basic pension could provide the under-pinning on which people could build their own private provision, Beveridge's objective, more effectively than a social insurance scheme. It would be simpler to understand and allow people to make better informed judgements about what they needed to acquire from the private market.

Insurance Trends, Association of British Insurers Quarterly Statistics and Research Review, Issue No.7 October 1995, p 10.

Thoughts from Wythenshawe

Abigail Thomas

I live in the Benchill area of Wythenshawe, with my husband (a freelance stage manager) and our two children — Sam aged 4 and Emily aged 10 months. I do paid work for 16 hours a week and some additional, sessional work when my husband is not working. I have been involved both as a member and a volunteer in parents' groups and women's groups in the area.

I am not going to spend time analysing the financial effects of Citizen's Income (CI) — I'm not qualified to do so and have no access to the necessary computer models. However, I can say absolutely, from my own personal experience, that the current benefit system fails people who are out of work or on low incomes, and that the tax and benefit systems (taken together) undo the good of the training initiatives which local people take part in, because their financial situations remain the same as before.

Voluntary groups and a few small businesses which try to plough money back into the community, by employing local people, almost always find that those who should be most enthusiastic simply say that they can't afford to earn small sums of money, because of the detrimental effects on their partner's benefit entitlement.

The people who can benefit are families on Family Credit, who already work at least 16 hours a week and who have children. And the reason they benefit is because Family Credit is fixed for six months at a time. Where I live, it's widely recognised that this is leading to a division between non-working families who live on very low levels of income (usually Income Support) and working families where the parents take on more and more part-time and casual jobs to boost their incomes, often spending less time than they would wish with their children. However, as the time for renewal of their Family Credit approaches, some of the casual work has to stop. That is because each Family Credit award is based on the joint earnings of both spouses (or partners) during the previous six weeks.

Citizen's Income (CI)

A full CI would of course be a solution to many of the problems faced by my family and the people I know, although I recognise that this is highly unlikely at the present time. A transitional CI might not benefit the majority of Benchill inhabitants directly, but the mistake people often make is to assume that it therefore isn't worth having. When I speak about any level of CI to my friends and neighbours, the response is enthusiastic.

Here are some of the advantages which they see:

- **Individual instead of family-based assessment units.** Any CI would be based on a payment to each and every individual. In couples the current benefit system tends to direct most income to one person in a household, particularly in families on income support. This puts great stress on relationships. A redistribution of income within families would therefore be most welcome.
- **Unconditionality.** With a transitional CI there would still be poverty traps in the system, because the CIs would have to be supplemented by residual means-tested benefits. However, any income that is unconditional provides some continuity over the period between losing out-of-work benefits (e.g. Income Support) and receiving in-work benefits (e.g. Family Credit). People do want to work, especially when they have taken advantage of the training on offer to gain new skills, but despite the existence of a fast-track system for people switching from Income Support to Family Credit — which is supposed to ensure that claims for Family Credit are processed in seven days — I know from personal experience that it often takes longer. A transitional CI could help to bridge this gap.
- **Citizenship rights.** Like child benefit, CI would be paid to everyone as a right of citizenship, so no stigma would be attached to it. Most people, whether unemployed or not, do not like to be seen as 'living off the state'. While we read and hear a lot in the media and from politicians about 'targeting money at the least well off', no one wants to be seen as a 'least well off' person. Moreover the people I speak to value most the income which is seen as theirs by right, be it from earnings or from universal benefits. Hand-in-hand with this goes the feeling that universal benefits are more secure than those which are means-tested. What people fear most is a 'safety net' for the vulnerable which could be whittled away. Rightly or wrongly, many people feel that child benefit is secure because it is supported by the more vocal middle classes. They do not begrudge other women who are better off the money they receive through child benefit.

Judging from those I know and speak to, most people in Benchill would welcome a transitional CI, even at a very low level. But they would wish to see it introduced hand-in-hand with other changes in the tax and benefit systems, to reduce the ridiculously high benefit withdrawal rates when income increases. The combination of these two reforms would enable people on benefits to gain from working instead of being penalised, as well as redistributing income within households and raising self-esteem.

How best to win the argument

The biggest obstacles to popular pressure for CI are a lack of information about it (most people have never heard of it) and the feeling that there are more important priorities.

When you have no job and nowhere to live, or your children are regularly sent home from school because of the poor state of the buildings, or the local hospital is about to close, where should you start?

Two priorities

Perhaps my challenge to readers should be this:

FIRST: Make Citizen's Income a commonly understood and widely discussed concept, at all levels of our society.

SECOND: Increase the pressure for introduction of a Citizen's Income, by seeking the support of people from a much wider variety of backgrounds than in the past — combining grass-roots lobbying with continuing pressure on the decision makers.

Abigail Thomas has been an active member of Citizen's Income North-West since 1990. Wythenshawe is part of Greater Manchester.

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 Kevin Donnelly

There is a tendency in the CI Bulletin to discuss CI only in terms of the welfare and the tax-benefit muddle. Almost inevitably it then becomes a question of affordability, with almost the only detailed research on funding being that done by Hermione Parker and her colleagues.

Yet what first drew me into campaigning for BI/CI was Bill Jordan's article in *New Society* (26 April, 1984), in which he put forward two arguments for the social wage, as CI was then called. The first argument was the tax and benefit muddle, the second argument and 'a more important contributory factor', as he called it, was mass unemployment, not only in Britain but across mainland Europe as well. His subsequent book, *Mass Unemployment and the Future of Britain*, has justified its gloomy title. Yet this issue has rarely been adequately discussed in the Bulletin and the book is missing from the 1992 Basic Income Reading List.

Across the Channel our friends of *La Grande Relève* are celebrating 60 years of campaigning for a job-sharing, monetary reform programme which would not only permit a CI but the *revenu social* would be a necessary consequence of it. No penny-pinching, stigmatising handout there: "Incomes should no longer be proportional to work: they ought to be proportional to production," wrote Marie-Louise Duboin in her paper for the 1988 BIEN conference.

That is why, although I still campaign for CI, I support even more the Christian Council for Monetary Justice in its campaign for an honest money system. If this has echoes of Major Douglas and Social Credit, so be it. Professor Raymond Plant recently observed, in conversation, that he keeps coming across economists who say Douglas was wrong, but are never able to explain why they think so.

With every good wish
Kevin Donnelly
20 Nan Nook Road
Manchester M23 9BZ.

MODEST BUT ADEQUATE

Summary Budgets for Sixteen Households October 1994 prices

Research by: **Nina Oldfield and
Marilyn Thirlway**

Edited by: **Hermione Parker**

Published by: **The Family Budget Unit
with the assistance of
The National Consumer Council**

How much does it cost to live comfortably but not extravagantly? What wages are required? What are the costs of children? What incomes do pensioners need to reach a similar standard? At first glance such questions look easy, yet the Family Budget Unit is the only organisation in Britain capable of answering them. Published with the help of the National Consumer Council, this report includes explanatory text and 18 detailed tables covering housing, fuel, food, personal care, clothing, household goods and services, transport and leisure.

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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 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 essential reading. Some articles trace the CI debate in other members 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 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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