

# CITIZEN'S INCOME

## BULLETIN

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JULY 1996

*Another radical change which should be considered ... is the payment to every citizen of a tax-free social benefit (to be referred to as a Citizen's Income), the level of payment varying solely according to the ages of the citizens, as children, or adults of working age, or persons of pensionable age.*

James Meade, in  
*Full Employment Regained?*  
Cambridge University Press, 1995

*SURFERS' SAVIOUR?*  
Brian Barry

*BI FOR BEGINNERS*  
Richard Clements

*CITIZEN'S INCOME AND  
FAMILY POLICY*  
Clive Soley MP talks to  
Susan Raven

*PRIVATE PROVISION —  
PUBLIC CONCERN*  
Marilyn Howard and Tim Laurence

*BI FOR INTERMEDIATES*  
Hermione Parker and Susan Raven

*CITIZENSHIP: THE SOCIAL RIGHT TO  
A BASIC INCOME*  
Fred Twine

# CITIZEN'S INCOME DEFINED

*For every citizen the inalienable right  
Regardless of age, sex, race, creed, labour-market or marital status  
To a small but guaranteed income  
Unconditionally*

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## CONTENTS

EDITORIAL	Page 1
SURFERS' SAVIOUR? Brian Barry	Page 2
BI FOR BEGINNERS Richard Clements	Page 5
CITIZEN'S INCOME AND FAMILY POLICY Clive Soley MP talks to Susan Raven	Page 7
PRIVATE PROVISION — PUBLIC CONCERN Marilyn Howard and Tim Lawrence	Page 9
BI FOR INTERMEDIATES Hermione Parker and Susan Raven	Page 11
WHAT KINDS OF PEOPLE DO WE WISH TO BE? Fred Twine	Page 16
OBITUARY: Stanley Booth-Clibborn 1924-1996 Anne Miller	Page 18
AT HOME AND ABROAD <i>Argentina:</i> Ruben La Vuolo and CIEPP <i>Netherlands:</i> BI conference in Nordwijk <i>United Kingdom:</i> Director's Report Hermione Parker talks CI in Parliament Hillel Steiner on Warwick workshop	Page 18
BOOK REVIEWS Richard Piachaud on: <i>Incomes and the Welfare State</i> , by AB Atkinson Graham Ingham on: <i>Full Employment Regained</i> , by James Meade Juan Carlos Hidalgo on: <i>Contra la exclusión</i> , Rubén Lo Vuolo (ed) Chris Downs on: <i>Pensions: 2000 and beyond</i>	Page 27
VIEWPOINT <i>Trickle Up ...</i> Hans Breitenbach	Page 29
EXCERPTS FROM THE PRESS	Page 31
LETTER PAGE	Page 32

## Editorial

### "It would cost too much!"

At no time during the twelve years since the Basic Income Research Group (BIRG) was formed — during summer 1984 — has the immediate outlook for introduction of a Citizen's Income (CI) in Britain looked bleaker. Despite mounting interest in CI, and mounting evidence that the present government's experiment with a residual (means-tested) welfare state adds to poverty without controlling expenditure, the Pavlovian response to CI from most politicians and most of the media is an unquestioning assertion that CI *would cost too much* — plus an unwillingness to learn more about it or even discuss it.

Egged on by the media, increasing numbers of people think that means-testing and/or work-testing are the most cost-effective social security options. Yet experience shows that they can be the reverse, especially when operated on a mass scale. Time and again Secretary of State for Social Security Peter Lilley complains about the growth of social security, yet the fastest growing programmes are not pensions or child benefit — nor even invalidity benefit — but income support for working-age families (expenditure up five-fold since 1979 at constant prices), housing benefit (also up five-fold), and family credit (up 20-fold and still soaring).

During the early 1980s, before development of the micro-simulation models now used for comparing different welfare options, there was some justification for questioning the feasibility of CI. Most of the figures were in aggregates and its likely effects were hard to judge. Since then, however, two things have changed. First, the visible excesses of tax and benefit changes which have made the poor poorer and left the nearly poor paying a higher proportion of their incomes in tax than the rich. Second, the steady refinement of research into the main CI option — Basic Income (BI).

Basic Income resembles the Tax Credit proposals put forward by Sir Edward Heath's government in 1972. Instead of the present, multifarious systems of social security benefits on the one hand and tax allowances and reliefs on the other (admin costs alone are about £6,000 million), every legal resident would be credited with a BI, either as a lump-sum deduction from their income tax, or in cash (non-taxpayers and children). Certainly it would take time to build up to BIs sufficient to be able to replace existing benefits, and it can be argued that NI benefits should remain, but the scale of dependence on means-tested welfare would plummet, with immediate and beneficial repercussions for people in the unemployment and poverty traps.

The ditching of Beveridge started in the early 1980s, so there is already ample evidence that mass means-testing doesn't work. One reason for this — as Martin Evans points out in his cross-national studies of social security in Britain, France and Germany (see page 27 of this Bulletin) — is that mass reliance on computer-operated,

means-tested benefits rules out discretion. Yet discretion (positive as well as negative) has an important part to play. In France and Germany, where fewer people depend on means-tested welfare than in Britain, discretion is widely used and is generally effective. In Britain, where millions depend on Income Support, Family Credit, Housing Benefit and Council Tax Benefit, there is little in-depth knowledge of claimants' circumstances and far too little emphasis on tackling the causes of their poverty.

"It would cost too much", in political and media speak, has changed its meaning. It used to mean a policy that would require income tax rates of perhaps 70%. It now means *no losers at the top*, which is ridiculous.

Even quite small BIs of £17.75 a week would shift the tax burden upwards — from poor to rich. They would also shift it sideways — away from families with dependent children to those without. And goodness only knows most families with children could do with that! Their tax plus rent burden has soared — almost doubled in some cases — during the past seventeen years.

The BIs would be paid for — and withdrawn from those who do not need them — by making the tax system more progressive. For instance, by abolishing the 20% rate of income tax, whilst increasing the standard rate of income tax from 24% to 25%, introducing new income tax bands at 45% and 50%, abolishing all the personal income tax allowances, restricting private pension tax reliefs to 15% and deducting the BIs from most existing social security benefits.

Of course there are some journalists and politicians who are deeply unhappy about the extent of poverty in Britain — and are prepared to take BI seriously. Until his death last December they had no less an economist than the Nobel Prize winner James Meade, a life-long exponent of Citizen's Income, as their guide.

"Any sensible person concerned about the uneven distribution of income and wealth now permeating British society," writes the BBC's Economics Correspondent Graham Ingham in this Bulletin, "would at least want to see Professor Meade's ideas for reducing the gap ... given a proper airing."

"In an ideal world," says Clive Soley, Labour MP for Hammersmith and Chairman until last May of the All-Party Parliamentary Group on Parenting, "Citizen's Income ought to be debated in the normal way, but because of the way politics and the media interface it doesn't happen like that."

Nor is this problem restricted to Britain. It is becoming a world-wide phenomenon. For reasons hard to fathom Parliamentary democracy is not what it used to be.

Readers please note that Citizen's Income Trust is now on E-mail at the following address:

citizens-income@lse.ac.uk.

We are planning a home-page on the Internet, giving information about CI and this will be accessed via the LSE web-site, which is: <http://www.lse.ac.uk>.

## Surfers' saviour?

Brian Barry

*The biggest obstacle to acceptance of Citizen's Income (CI) may well be the feeling that it is unfair. Why pay people for doing nothing? In this article, Professor Brian Barry examines the moral case for CI put forward by Philippe Van Parijs in his book **Real Freedom for All: What (if anything) can justify capitalism?**<sup>1</sup> and finds some of the arguments flawed. An extended version of some of the arguments in this article was discussed during a workshop at the University of Warwick on 4 May 1996 (see **At Home and Abroad**).*

The dust-jacket of *Real Freedom for All* features a photograph of a surfer riding an enormous wave. Illustrating the increasing triviality of newspaper reviewing, one 'Books' column commented on the photograph, but did not vouchsafe any explanation of it — which would have required actually opening the book. The answer is that it refers obliquely to some words written by John Rawls.

In his masterwork, *A Theory of Justice*,<sup>2</sup> Rawls argued in favour of a distributive principle — the *difference principle* — which calls for the income of the worst-off members of a society to be as high as possible. This might be thought to underwrite a maximum sustainable level of CI, especially since a key move in Rawls's argument is that everything that makes one person more productive than others (including "the ability to make an effort") arises from the workings of the genetic and environmental lottery.

Despite this, Rawls (who did not address the issue in *A Theory of Justice*) subsequently repudiated the notion that a CI is required by justice, saying that "those who surf all day off Malibu must find a way to support themselves and would not be entitled to public funds".<sup>3</sup> Van Parijs responded with an article entitled *Why Surfers Should be Fed*, the arguments of which are incorporated in the present book.<sup>4</sup> Hence the photograph on the dust-jacket.

### The 'surfer' objection

I have chosen to make surfers my starting point, because what one might call generically the 'surfer' objection is the toughest one that CI advocates have to face. I imagine that it is the universal experience that, apart from practical problems such as cost, the objection which most often occurs to people who hear about CI for the first time is that they do not see why the fruits of productive labour should go to subsidise the voluntarily unemployed.

### First response: 'Participation income'

It is instructive to divide up CI supporters according to the way in which they tackle the surfer objection. One response is to capitulate immediately, by dropping the unconditionality which is CI's defining characteristic.

Recipients of Tony Atkinson's *participation income*, and who were able-bodied and below retirement age, would have to be gainfully employed, in some form of education or training, caring for young children or relatives who were elderly or infirm, or engaged in voluntary work of an approved nature.<sup>5</sup>

This would rule out the carefree hedonists summoned up by the image of the surfer, but at the cost of a great deal of bureaucracy, with officials taking decisions many of which would be of an objectionably discretionary kind. It is also likely, I suggest, that the largest category of surfers (in the generic sense) would be married women whose children were over whatever cut-off age was set. Perhaps most people would not want to pay them anything, but it is hard to summon up a great deal of moral indignation about the prospect of allowing them a CI.

## **Second response: Universality**

The second approach accepts that surfers (the able-bodied and voluntarily unemployed who do not, let us now add, meet any of the other conditions of eligibility for participation income) are parasites. But it argues that a bit of parasitism is worth putting up with in return for the advantages of the overall scheme: I am thinking here of familiar points such as the elimination of poverty traps and unemployment traps.

The logic of this argument is that it would undeniably be a drawback if large numbers of people (especially those with valuable skills and abilities) were to drop out. The case for CI then turns on the claim that relatively few people without other commitments would prefer living on such an income (even if it were pitched at subsistence level) to augmenting it with the proceeds of a job.

It may be added that the enormous number of people engaged in the voluntary sector (estimated in Britain to be larger than the number in paid employment) suggests that dedicated surfing is pretty rare. However, I am not concerned here to assess the merits of the argument. I simply want to distinguish it from an alternative which takes a strikingly different tack.

## **Third response: CI as a right**

The third response is to brazen out the surfing objection by denying that it is a valid objection at all. On this line of argument, the enjoyment of a CI is a right or a strict demand of justice. Hence, the beneficiary does not have to account to anybody for the use made of it, and that includes full-time surfing.

The analogy might be made with the fortunate inheritor of stocks and shares, who (at least according to a common way of thinking) cannot properly be criticised for the use made of the income derived from them, including a lifetime spent surfing. This approach to the justification of CI can be traced back to Tom Paine's argument that everybody has a claim to an equal share of the value of the common land enclosed by landowners.

Van Parijs's book contains a sustained and elaborate argument for CI that eschews any appeal to desirable

consequences and instead presents it as some kind of entitlement. Clearly, if Van Parijs is successful, supporters of CI need only cite his arguments to dispose decisively of the surfer objection. Unfortunately, he does not make out this case, or so I believe. I very much doubt if any other argument would do better at establishing that CI is an entitlement. If I am right about this, CI supporters will have to stick to the strategy of arguing for it as a policy that is superior to the alternatives currently in contention as a way of achieving a number of widely-shared objectives.

## **Flaws in the argument**

Van Parijs takes a wide swing at the subject, starting from the choice between alternative economic systems. Like Rawls, he maintains that a theory of justice cannot adjudicate directly between capitalism and socialism. Rawls proposes that the choice should fall on the system that maximises the incomes of those with the lowest incomes (subject, as we have seen, to some sort of willingness-to-work test), and Van Parijs's criterion might be seen as an unconditional version of Rawls's. Thus, to answer the question posed in his subtitle, capitalism can be justified if (as Van Parijs believes) it is more productive than socialism and hence capable of sustaining a higher level of CI.

Why should maximisation of CI be the appropriate criterion? There are two stages in the argument. First, distributive justice requires that the minimum amount of real freedom that anyone in a society has should be maximised. And second, this condition is met when the level of the CI is at a maximum. Neither step in the argument is secure, in my view.

Consider the second stage. Real freedom, as defined by Van Parijs, is a rather slippery concept. It is the ability not simply to get what you actually want but also to get what you might want. It is extraordinarily difficult to reduce to a single ordering a potentially infinite number of heterogeneous assortments of possible objects of desire. I do not believe that it is possible to construct the measure that would enable us to derive Van Parijs' very strong conclusion, that under all conditions the smallest amount of real freedom that anyone enjoys is maximised by maximising the level of Citizen's Income.<sup>6</sup>

Even if we could get from maximising minimum real freedom to maximising CI, there would still be the problem that Van Parijs gives no adequate reason for thinking that justice requires the maximisation of minimum real freedom. Let us agree that real freedom, as defined by Van Parijs, is a nice thing to have. It does not follow that the precepts of justice place us all under an obligation to maximise the amount of real freedom enjoyed by the person with the least.

The intuition underlying the surfer objection is that what people can justly claim should be connected with what they do. In particular, people who deliberately refuse to participate in mutually advantageous ventures cannot reasonably complain about being excluded from the benefits. Van Parijs's principle sets no conditions on entitlement to the highest possible minimum level of real freedom, and for this reason if for no other it lacks plausibility as the fundamental principle of distributive justice.



## Other arguments for CI

This does not exhaust the case for CI put forward by Van Parijs. He has other arguments that seem to me to come out of an entirely different style of political philosophy. These turn on trying to identify sources of funding for a pot of money to which everybody in a country can be said to have an equal claim. That claim can then be met, he argues, if the pot is divided equally in the form of a CI.

The search starts off with a claim that everybody is entitled to an equal share of the value of land and natural resources, but this is massively inflated by adding the value of the contribution made to total production by inherited capital and know-how (including, presumably, writing and the wheel). Since this virtually amounts to total production, we would easily be able to establish the case for a maximum CI on the basis of this principle. But Van Parijs, for reasons that I do not understand, backs off from this conclusion and claims only that the argument licenses setting death duties at whatever rate maximises the yield, and that the proceeds should go into the provision of a CI.

Van Parijs admits that this would fund only a quite low level of CI, but in any case I do not see why it follows that the proceeds of death duties should go into the provision of a CI as opposed to other public purposes — even if we agree that rights of succession are purely conventional.

## Efficiency wages

Be that as it may, Van Parijs has one more shot in his locker. A currently fashionable idea in labour market economics is that of so-called *efficiency wages*. According to this theory, employers cannot in general monitor the work done by their employees in detail, so they pay wages above the market-clearing level in the hope of creating a workforce that will feel loyal and be reluctant to take the risk of being fired as a result of cutting corners. This means that there will be people who are just as well qualified as those in a certain job, but are either unemployed or in a less well paid job, because the labour market does not clear.

Van Parijs suggests that those who lose out as a consequence of the efficiency wage phenomenon can legitimately complain of being the victims of bad luck, and that the beneficiaries are enjoying a kind of rent that can justly be taxed. This is an ingenious and, as far as I am aware, original argument. But its obvious implication is that the only people with a fair claim to compensation are those who are involuntarily unemployed and willing and able to take jobs that others have, plus those who are employed but willing and able to do better paid jobs. Surfers need not apply. Thus, whatever the argument derived from efficiency wages may justify, it does not advance the case for CI.

## Case unproven

*Real Freedom for All* has a great deal in it to interest the political philosopher, and will for many years be an essential reference in our discussions of a number of technical issues. But my regretful conclusion is that those who are attracted by the idea of Citizen's Income would

be well advised to exercise caution in relying on the case for it made in this book.

*Brian Barry is Professor of Political Science at the London School of Economics and Political Science, and is the author of Justice as Impartiality, Clarendon Press, Oxford, 1995.*

## Notes and references

1. Philippe Van Parijs, *Real Freedom for All: What (if anything) can justify capitalism?*, Clarendon Press, Oxford, 330 pages, ISBN 0-19-827905-1, hbk.
2. John Rawls, *A Theory of Justice*, Oxford University Press, Oxford, 1971.
3. John Rawls, *The Priority of Right and Ideas of the Good*, *Philosophy and Public Affairs* 17 (1988) 251-76, p. 257.
4. Philippe Van Parijs, *Why Surfers Should be Fed: The liberal case for an unconditional basic income*, *Philosophy and Public Affairs* 20 (1991) 101-31.
5. A.B. Atkinson, *Incomes and the Welfare State: Essays on Britain and Europe*, Cambridge University Press, 1995, Chapter 15.
6. I make this argument in a good deal of detail in *Real Freedom and Basic Income*, forthcoming in the *Journal of Political Philosophy* (published by Blackwells).

## 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.

Available from: **The Family Budget Unit  
NCC Publications  
20 Grosvenor Gardens,  
London SW1W 0DH**

**Price: £20**

# Basic Income for beginners<sup>1</sup>

Richard Clements

*Citizen's Income Trust is often asked for a beginner's guide to Citizen's Income (CI). In general terms this presents few problems — CI is a guaranteed income, payable without a means test, work test or cohabitation test, to every man, woman and child who is legally resident in the country of payment. Complications arise, however, because of the large number of CI proposals put forward in recent years, some of which do not entirely conform to the above definition. Should such schemes be included within the parameters of CI? We think that many of them should be. However in this article and in **BI for Intermediates**, elsewhere in this Bulletin, we concentrate on Basic Income (BI). That is because, in Britain, BI is the CI option which has come nearest to the statute book.<sup>2</sup>*

On all sides we hear gloomy predictions about whether we are going to be able to finance the Welfare State. The ratio of the working population (with work defined as paid work) to those who are retired or otherwise economically inactive is falling. As modern technology cuts into the future of work, there is increasing doubt that we will ever return to full employment as we knew it in the past. And there is more talk about the individual having to make private provision for retirement, ill-health and unemployment, as the state sector diminishes.

In the circumstances one might expect the policy-makers to look for radical solutions to the problems. We surely should be seeking answers as dramatic as the original Beveridge proposals of 50 years ago. The nation was then united in its determination to adopt policies which would overcome the poverty and deprivation that scarred the inter-war years.

But what is actually happening? Future policy proposals look much like the piece-meal approach of the last two decades. A few savings are made here, tougher rules are imposed there. Priorities are switched from one claimant group to another. There is constant talk about the need to cut the social security budget by better 'targeting' of resources. But instead of spending less we are spending more and we are also failing to make any serious inroads into the problems of poverty and deprivation in our society.

So, obviously, we need new thinking. We need to re-establish the principles which lay behind the introduction of the Welfare State in the immediate post-war period. But we also have to take into account the great changes that have taken place in our society and our economy. The reason why the alterations which have been made have failed is that they have not taken into account these developments.

## Administrative nightmare

At present our social security arrangements are a

nightmare of complex rules and regulations which need a small army to administer. The same can be said of much of the taxation system which finances it. While many complain that social security breeds a dependency culture, the system itself fails to give people the incentive to move into employment. The 'unemployment' and 'poverty' traps are two outstanding examples. But many other 'traps' have been identified as well.<sup>3</sup>

About one third of Government expenditure (i.e. our taxes) is currently spent on welfare payments. The social security budget is fast approaching £100 billion a year. Of course we all want to get it down, but we also want to see proper provision for pensioners, the poor and deprived, the disabled, children and the unemployed. A social security system is part and parcel of the sort of civilised society most of us want to live in. What we need to do is ask ourselves the question:

*What is the best way of giving people the security to develop their own abilities and by doing so contribute to society?*

Keeping people in dependency is the wrong way to go about achieving that.

## Same objectives, different methods

The advocates of paying every individual a CI argue that we need to change the system, so that it makes a contribution to the success of our society rather than acting simply as a safety-net which (sometimes) catches those who are failing to succeed.

CI has the same objectives as the Beveridge Plan, but uses different and potentially much more effective methods to achieve them. Contribution records, means-testing and income tax allowances are dispensed with and a CI payment is introduced, based on legal residence. Out go benefit 'dependency additions' (for spouses and children), in come individually assessed CI payments for each man, woman and child. Out go work tests and in comes the freedom to take whatever jobs are available without fear of prosecution.

Does that sound too radical 'to be acceptable'? It is no more radical than the original Beveridge proposals were considered at the time.

Why should the CI be paid to every individual, even if they do not need it?

Because its purpose is *to prevent people falling into poverty and deprivation* rather than helping them out when they have already done so. People who do not need the CI will still make their contribution through taxation, since most income above the CI will be taxed.

## Age-related with disability supplements

Would the CI be the same amount for everyone? No, it would be age-related. There would be more for elderly people than for adults of working age and more for adults than for children. Of course, there would have to be supplements for people with disabilities. But there would be no differences on account of income or wealth, work status, gender or marital status.

## Paying for it

How would a CI be paid for? With the CI variant called Basic Income (BI), the money would be raised through a new income tax, which would replace National Insurance contributions. In principle all income in excess of the BIs would be taxable, although in practice the first slice of earned income (perhaps £25 per week) would be tax free.

## Tried and tested

Has something like Citizen's Income ever been tried? The answer is that child benefit, paid on behalf of every child regardless of the income or work status of the parents, **is already** a Citizen's Income for children.

So, if CI is such a good idea, why aren't the policy-makers all arguing in favour of it? Unfortunately it often takes a long time for a breakthrough in the field of social policy. Much prejudice has been built up against the present social security system — labelling those who use it 'scroungers'.

*Yet the people who understand how our economy works are in favour of a Citizen's Income.*

## Getting unemployment down

One of the greatest economists of our age — the late Professor James Meade (who was a Nobel prizewinner in 1977) — was a life-long advocate of Citizen's Income. His thinking has influenced a wide body of opinion. The celebrated economist J.K. Galbraith is another keen supporter.

In a book published shortly before his death,<sup>4</sup> Meade argued that CI serves three main purposes:

- It relieves poverty by guaranteeing a 'Minimum Acceptable Level' of income to every legal resident.
- It does so without destroying incentives to work.
- It provides a universal supplement to earnings, which is aimed at justifying any restrictions on rates of pay which may be needed to ensure full employment.

According to Meade, in order to meet the changing needs of our society and economy, we should have a policy like a Citizen's Income. That way we can achieve the objectives which the original Beveridge Welfare State set out to accomplish and also increase our economic efficiency.

For example, if we could reduce the level of unemployment to the levels of the 1950s and 1960s, we would save literally billions of pounds from our social security bill.

## Setting people free

Some people believe that without a work test, a benefit such as CI would destroy the work ethic. But paradoxically it is the present system which encourages

idleness, by paying people only so long as they do nothing — in order to remain 'available for work' — and penalising them when they try to help themselves.<sup>3</sup>

By breaking down the barriers between employment and unemployment, CI would enable people to develop more flexible patterns of work. It would also give some reward to the many people whose voluntary or caring contributions to society are so important, yet barely recognised at present.

A citizen's Income is the future of social welfare and should be happening right now. It combines the efficiency of the market with the compassion of the welfare state.

*Richard Clements is Director of Citizen's Income Trust.*

## Notes and references

1. This article is based on a piece which appeared in the Social Justice Desk Newsletter, No. 36, June 1996, published by the COR (Conference of Religious) Secretariat, 114 Mount Street, London W1Y 6DQ. It is published with their kind permission.
2. Treasury and DHSS, *Proposals for a Tax-Credit System*, Cmnd. 5116, HMSO, 1972.
3. Hermione Parker, *Taxes, Benefits and Family Life: The seven deadly traps*, Institute of Economic Affairs, 2 Lord North Street, London SW1P 3LB, 1995.
4. *Full Employment Regained*, Cambridge University Press, 1995. For a review of this book, see Graham Ingham elsewhere in this Bulletin.

*There is one glaring absurdity in our present arrangements. The employers' and the employees' National Insurance Contributions are compulsory levies which constitute taxes on the employment of labour ... These taxes should be abolished and the revenue replaced by more appropriate forms of tax, such as the income tax which falls on all types of income.*

James Meade in: *Full Employment Regained?*, page 52



# Citizen's Income and family policy: The need for debate

Clive Soley MP talks to Susan Raven

*Clive Soley has been Labour MP for Hammersmith since 1979. A former probation officer, until May of this year he was Chairman of the All-Party Parliamentary Group on Parenting, whose members are drawn from the House of Lords as well as the House of Commons.*

We set up the all-party group on parenting with the idea of getting family policy higher up the political agenda. We were trying to persuade Government to *HAVE* a policy on the family, and to put in place structures and income policies to support it.

We did not set out to moralise: the family now is clearly a more flexible unit than the traditional, married-in-church family with two adults, two children, a dog and a car. It can be co-habitees, of course, but equally it can be adult children living with elderly parents, or brothers and sisters sharing a house. There's such a wide range, and for politicians of any party to start moralising is a serious mistake. Fortunately our Committee was set up just when that particular approach fell into disrepute — along with *Back to Basics!*

## No policy coordination at all

There is clearly no coherent policy for families at the moment, when children throughout the land are having to live in high-rise flats or in bed-and-breakfast accommodation; and when children who are excluded from school — often for good reasons, I don't deny — are left virtually on the streets.

We're worrying far too little about what happens to such children. In practice, unless they can go to another school straight away — and in my experience that seldom happens — they are supposed to have special tuition, which commonly means being sent work to do — or not to do — at home. If the child is lucky he'll find a place in a special unit. But a special unit should *always* be the priority, because if you don't get a child back into full-time education immediately, he'll slip back even further than he's slipped already. And he'll have time to spare and more potential for crime or whatever.

And what about the victims of mortgage repossessions? If you turn to your local authority for help, you'll find that the new Homeless Persons Act has made it entirely discretionary whether or not councils help families whose homes have been repossessed. A bad council won't help — and even a good council will only put such families in bed and breakfast. A few years ago I launched a scheme on behalf of the Labour Party whereby local authorities should have the right to buy the homes of people threatened with re-possession, or at least to pay the mortgage interest. That would have been cheaper

than re-housing them in bed and breakfast. This Government said they too would introduce a mortgage rescue scheme, but they dropped it. That's the kind of non-policy I mean.

Another example of incoherent policy-making — setting up trouble for the future — is the Home Office cheerfully saying we should lock up more and more young offenders — because it's the only language they understand — while just about everybody else working in the field is saying that children in institutions is bad news. So Mr Howard is doing his thing and everybody else is trying to pick up the pieces.

## Let's have policies that are family-friendly

The fracturing of the family leads to multiple problems: crime, under-achievement in education, health problems and less happy communities generally. We're doing the judgemental bit — the moral panic, let's stop divorce bit — but divorce isn't the key issue. It's really to do with families.

What we need are family-friendly policies — to make parenting easier, not harder. More nursery education, for example, with properly trained staff who can spot trouble in advance. The Dunblane murderer — abandoned by his father and brought up to think his mother was his elder sister — could be just the sort of person who should have been spotted in his childhood.

We need to put Government in a coordinating role, so that central government, local government and the private sector all work together. That would be a big step forward. We could then start a sensible debate about what we should do. At the moment we are individual voices crying in the wilderness, with no political input. The Government says it's doing all this, but it clearly isn't.

Labour was talking recently of having a Ministry of the Family. We're now not so sure about that, but we do need to have one person responsible at ministerial level for seeing that the departments coordinate a family-friendly policy. The danger is that such a Minister can be marginalised — the other Government departments saying it's no longer their responsibility — and the policy gets shunted out of sight. I admit that Labour's family policy is so far rather sketchy, but I think it's a mistake to suppose we can magic up a detailed policy at this stage. However, the Conservatives have no policy at all.

We've certainly got to have a proper debate about it — and probably the whole subject should be debated by a senior committee of Cabinet. That would give it a high profile. *We need Ministers who think family policy is important.*

## CI seems a good idea

The current tax and benefit system does have a very bad effect. I've looked at the arguments for Citizen's Income and I've discussed it with some of my colleagues. I must say I don't fully understand it, but it looks like a good idea waiting to happen. The feeling is, again, that it deserves a lot more thought. Also it would involve a pretty radical turn-around of the tax/benefit system.

Its attractions are, first, that it recognises that work patterns have fundamentally changed, and that the old

model of the man going out to work from nine to five, in heavy industry or whatever, is unlikely to recur in the foreseeable future. Not that we would want it back in that form anyway. Second, it recognises that the present benefit system discourages people from coming off benefit — because it is too hard to get on to it again, if you just earn a little amount or lose your job. It makes people worry about fiddling the system or go through the nightmare of re-applying every time they earn £50 — a soul-destroying business.

The problem is that if you want a really radical change, you've got to get from A to B. The switch after 1945 from the old system to the Beveridge/Attlee welfare state, the National Health Service and so on, was a very dramatic move — pretty gi-normous. Those reforms were supported by the public mood, especially a determination never to return to the miseries of the 1930s.

Today we need a rather more subtle shift — and probably an element of cross-party agreement. We'd also need another change of mood. But I think that's beginning to happen. In the early days of Thatcherism, everybody was into the isn't-it-wonderful, pull-your-socks-up, everyone-should-be-made-to-work frame of mind. I remember all those headlines in the tabloids about people lying on the beach instead of looking for work: there was a tiny element of truth in them, but I also think that many of the unemployed are just depressed — because what hope do people without work have?

## **The effect of the media**

Unfortunately it's very hard to have the right kind of debate about something like reform of the tax/benefit system. One of the great difficulties is the interface between politics and the media. Everything ends up being too simplistic, no one can offer the more detailed, complex arguments that are needed. It's particularly hard for the Labour Party, because the moment we start that kind of debate we have to talk about tax, and immediately we do that the media complain that we are the high-tax party.

But I agree that debate is necessary. And if an idea like CI could become part of the national debate that would be no bad thing. I think the mood is ripe for a change, but whether it will favour BI or some variation of it, I cannot say. There are many complex questions which need answering. If you have a family of six or seven people over 18 years of age, do they all get the BI? How would it affect their work patterns? Having a BI would enable people to do voluntary work — but what do you define as voluntary work? And how do you offer additional support to the disabled?

Decriminalisation would be one of the great attractions of CI — people could earn more without breaking the law. Also a BI of £20 a week might enable some mothers not to work, while others might work less — three days a week instead of four. However, I don't take the view that mums working is all bad, and in fact most of the mothers I know want to work. They're on benefits but doing jobs on the side — and I don't entirely blame them.

In South Wales, fifty per cent of the main carers of children are men. What is their role in life? If men are no longer the prime breadwinners, they need to be

respected in their new role as carers. That's a major problem. If one or both parents choose to work, how can we structure it so that they get enough income to support the children? And if they both choose to focus on being good parents, how do we enable them to have an income that is enough to live on?

## **CI needs more publicity**

If you want a quick solution from me, you're not going to get it! There must be a complete re-think on the benefit system, as Citizen's Income Trust and others are saying. I know the present system is *not* the answer. I'm sure that CI does have many of the answers — after all child benefit and the old age pension are a form of Citizen's Income. But CI for everyone would be very expensive.

At the end of the day you've got to carry with you not just people like me, but key policy makers, civil servants and others — not to mention the public at large. CI itself is not yet getting publicity at a high enough level. It's not mentioned enough in the quality newspapers.

You have to get to the stage when people start saying 'Let's look at Basic Income'. The encouraging thing for CI supporters is that so many people are already saying the benefit system isn't working. Now is your opportunity — when we are looking for alternatives. In an ideal world CI ought to be debated in the normal way, but because of the way politics and the media interface it doesn't happen like that.

There are a number of ideas knocking around which we ought to be examining. One is the idea that a sum of money should be invested on the birth of a child, which could increase to anything between £14,000 and £25,000 by the time the child reaches age 18 — and could be used on, say, any aspect of education or training. It would be very expensive at first, nearly £1 billion. And to achieve it you would need a proper debate about taxation, so that the tabloids do not go ape about income tax going up by a penny in the £ or something ridiculous like that.

No one is in a position to say that if you were able to do all or any of this everything will be fine in five years' time. But we have to start somewhere.'

# Private provision — public concern

## Meeting the needs of people with disabilities

Marilyn Howard and Tim Lawrence

*In CI Bulletin 21, Jay Ginn argued that women are poorly served by private and public pensions systems,<sup>1</sup> not least because of the shift of resources from state provision for retirement to private pensions. In this article it will be shown that a similar picture exists in the area of provision for people with disabilities. Recent research by The Disability Alliance and The Disablement Income Group has highlighted problems with each component of the private insurance market. Debate is now urgently needed on possible ways forward, including consideration of a Basic Income and of a Disability Income Scheme.*

As part of its move away from state provision the Government justified a reduction in the rate of Incapacity Benefit by comparison with Invalidity Benefit (which it replaced),<sup>2</sup> by arguing that most people have access to other forms of income during periods of illness or disability, for instance occupational pensions and private insurance. However The Disability Alliance and The Disablement Income Group have found that the components of the private insurance market (occupational sick pay, occupational pensions and permanent health insurance) are poorly equipped to meet the burden of insuring everyone against incapacity.<sup>3</sup>

### Short-term occupational sick pay

The proportion of workers covered by short-term sick pay is relatively high, but payments continue for at most six months from the onset of an illness or submission of sick-notes from a doctor. It is less well known that nearly three-quarters of workers in such schemes are potentially affected by factors that exclude them from cover, or, if they do manage to secure cover, they find themselves affected by exclusion clauses.<sup>4</sup> Those most likely to lose out are part-time workers, people who have been with an employer for a short time only, and unskilled workers on low wages.

### Occupational pensions

When a return to work has been ruled out and the individual takes early retirement on grounds of ill health, there may be access to an occupational pension. But this depends on membership of a scheme. The General Household Survey (1992) found that socio-economic grouping was a prime determinant of scheme membership, and that the lower paid were much less likely to benefit.

There are two additional factors relevant to occupational pensions and provision for incapacity. First, disabled

workers are less likely than non-disabled workers to have an occupational pension. Second, because all such schemes are based on income replacement, the level of payment depends on the beneficiary's final salary, further disadvantaging those on low incomes. A (1992) sample of the population aged between 55 and 69 years showed that the average amount received from an occupational pension was 27% lower for those with some pre-retirement disability than for those without:

### Pre-retirement disability and average income from occupational pension, for people receiving occupational pensions

	Men £ week	Women £ week
People with pre-retirement disability	45.57	26.05
People with no pre-retirement disability	67.23	30.89

Source: Retirement and Retirement Plans, Office of Population Censuses and Surveys (OPCS), 1992, Table 8.36

### Permanent health insurance (PHI)

In the event of long-term incapacity for work, payment can be made from two kinds of permanent health insurance (PHI) scheme: group or individual. Only 10% of the working population is covered by an individual PHI policy,<sup>5</sup> and the majority are men in professional, higher paid occupations.

Even for those with cover, payment is seldom assured. Companies use several definitions of 'incapacity', determined largely by the price of the policy or the occupation of the policy holder. For example, the more stringent tests (such as being unable to do any work at all) are used in conjunction with policies with less expensive premiums, or for blue collar workers. The reason is, of course, that the more stringent the definition of incapacity, the lower the risk of a claim being activated.

Many people are deemed too high a risk for PHI, because of their occupation, health status or gender. The consequence is to be excluded from cover — often by means of a loading on premiums, so as to price bad risks out of the market.

In 1995 Linda Drake recognised that:

It is the people with the greatest need — the self-employed and those with riskier occupations that may contribute to longer periods off work — who are the least likely to have cover, because of the far greater cost of premiums.<sup>6</sup>

This is a fundamental problem for the private insurance market — especially now that it is being offered an increasing share of the responsibility to provide cover against chronic illness and disability in the wider population.

At first glance, group PHI schemes seem to provide a structure that will enable the market to get round the problem of insuring bad risks. Right now many schemes

are insuring individuals who would otherwise have been refused cover or would have been priced out. This has been achieved in two ways. First, employers not employees are making the contributions, and the cover may be provided for all employees, often irrespective of an individual's length of service with the organisation. Second, by covering all employees, risk is pooled, increasing the commercial viability of the scheme.

Major problems remain, however. In its present form this kind of insurance is an unsuitable way of providing nationwide cover for disability. For a start it depends on an individual not only being in work, but working for a company which can afford to run a group PHI scheme. The present market also lacks transparency. Employees of a company with a group PHI scheme can have difficulties even finding out if they qualify for cover. Many schemes contain a bewildering array of exclusion clauses, which are easily missed, and should a claim be necessary it is of course too late to make alternative arrangements. Having cover does not guarantee payment in the event of long-term sickness or disability. In our experience insurance companies can operate tests of incapacity which are as stringent for group cover as for individual policies. Furthermore, dismissal from the company — or its liquidation — almost certainly invalidates the PHI.

Critical illness insurance is a relatively new development, often sold as a package with PHI. The payment is in the form of a lump sum, in the event of heart attack, stroke, kidney failure, cancer, major organ transplant or coronary heart by-pass surgery.<sup>7</sup> This core list excludes many degenerative conditions, which can often cause the greatest financial problems for individuals forced out of work.

## **Trouble ahead**

The stringent rules introduced with Incapacity Benefit illustrate the Government's desire for people to be self-supporting and to make their own provision against disablement. Furthermore, recent overtures from Chris Smith MP (the Labour Party's front-bench spokesperson on social security) suggest that a future Labour Government would not enact a radically different approach. On the contrary, it looks as though private provision will play an increasing role and state cover will be incrementally reduced, irrespective of the political colour of the government in power.

## **Informed debate is needed**

Recognising this, The Disability Alliance and The Disablement Income Group are calling for an informed debate to begin, before further decisions are taken which impinge on the lives of chronically sick and disabled people.

We are calling for a forum where key people — senior civil servants, representatives of the insurance industry, the actuarial professions and consumer bodies — are able to examine the factors that result in the exclusion of so many people from private insurance, thereby making private cover something of a lottery for those who do buy into schemes. The forum should set down sensible strategies for development, for example:

- Whether provision based on private insurance can be extended to low earners and people with interrupted work records.
- Whether group PHI has the potential to reduce the pressures on state-funded incapacity benefit.
- How the market can be regulated to safeguard the interests of investors in private schemes (especially in the light of the Government's plans for long-term care insurance).

Government ministers and politicians from all parties should be under no illusion that employers and insurance companies can cover the needs arising from incapacity without a firm foundation of state support. But the form that this support should take has so far received very little rigorous examination.

It is important that Citizen's Income Trust consider these issues with regard to the schemes it advocates, both for disabled people and for those who are in work now but who are destined to become incapable of work at some point in the future.

Similarly, consideration needs to be given by disability organisations advocating a Disability Income Scheme — similar in its ideals to Citizen's Income<sup>8</sup> — as to how these alternatives would fit in with the rapidly evolving paradigm of state plus private provision.

Citizen's Income Trust may, in particular, like to consider whether it is possible — perhaps through some form of CI scheme — to provide incomes for people with disabilities which are adequate and upon which they can build through paid work and voluntary savings (including insurance), without being subject to the high benefit withdrawal rates associated with the existing social security system.

## **A disability income scheme**

The Disability Alliance and The Disablement Income Group are convinced that private provision is not the solution to the problem of replacing income during incapacity for work. At its best private insurance may provide an income top-up for people who can afford the high premiums involved. At its worst private insurance is claiming to do something it cannot deliver.

Our conclusion is shared by the Social Security Advisory Committee, which recently wrote:

Unless the insurance industry produced a package which, in effect, replicated the wide coverage of risks accepted by the state scheme, we see little prospect of a greater involvement of the private sector in provision for sickness, disability and unemployment in such a way that it could supplant state provision for the majority of the population and for high risk, vulnerable groups in particular.<sup>9</sup>

The present state system fails to meet the objectives of a disability income scheme. However, since the state can pool risks across the whole population, it does at least provide a minimum level of support for those who find themselves incapacitated from work. This is what the private sector cannot do at present; and whether it could ever do so is debatable.

Marilyn Howard was Policy Officer at the Disability Alliance. Tim Lawrence is a researcher at The Disablement Income Group. **There may be trouble ahead: why occupational pensions and permanent health insurance are no substitutes for a state disability income scheme<sup>3</sup>** is available from DIG, Unit 5, Archway Business Centre, 19-23 Wedmore Street, London N19 4RZ, tel 0171 263 3981, price £6.75.

## Notes and references

1. Jay Ginn, *Citizens' pensions and women*, CI Bulletin No. 21, February 1996.
2. Invalidity benefit was replaced by Incapacity Benefit in the UK in 1995
3. Marilyn Howard and Pauline Thompson, *There may be trouble ahead: why occupational pensions and permanent health insurance are no substitutes for a state disability income scheme*, Disability Alliance/Disablement Income Group, 1995.
4. IFF Research Ltd, *OSP Schemes*, Department of Social Security, 1988.
5. G. Clarke, *Benefits for whom?*, Planned Savings, October 1994.
6. Linda Drake, *Breaking down resistance to PHI*, Planned Savings, May 1995
7. C. Williams, *Cover for when the anaesthetic wears off*, Planned Savings, July 1995.
8. *Implications of Basic Income for people with disabilities*, BIRG Bulletin No. 7, Spring 1988.
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*The choice is not between an integrated tax-benefit system and the existing system, it is between an integrated system, an increasingly harsh version of the existing system, and an elaborated version of national insurance accompanied by ever-increasing unemployment.*

Hermione Parker in: *Taxes, Benefits and Family Life: The Seven Deadly Traps*, Institute of Economic Affairs, 1995, page 102.

# Basic Income for Intermediates

Hermione Parker and Susan Raven

*A Citizen's Income (CI) is a guaranteed income granted on the basis of citizenship or legal residence. In Britain the only existing example is child benefit, but the residence-based pensions payable in Scandinavia, Holland and Canada come close to CIs for old age. CI protagonists start from the premise that economic and social progress depends on unpaid as well as paid work, and that societies which restrict benefit entitlement to paid workers (or former paid workers) risk chronic unemployment and social disintegration. The main CI varieties are: Basic Income (cf the convertible tax credits proposed by Edward Heath's Government in 1972<sup>1</sup>), social dividend, participation income and negative income tax. Here we concentrate on Basic Income (BI).*

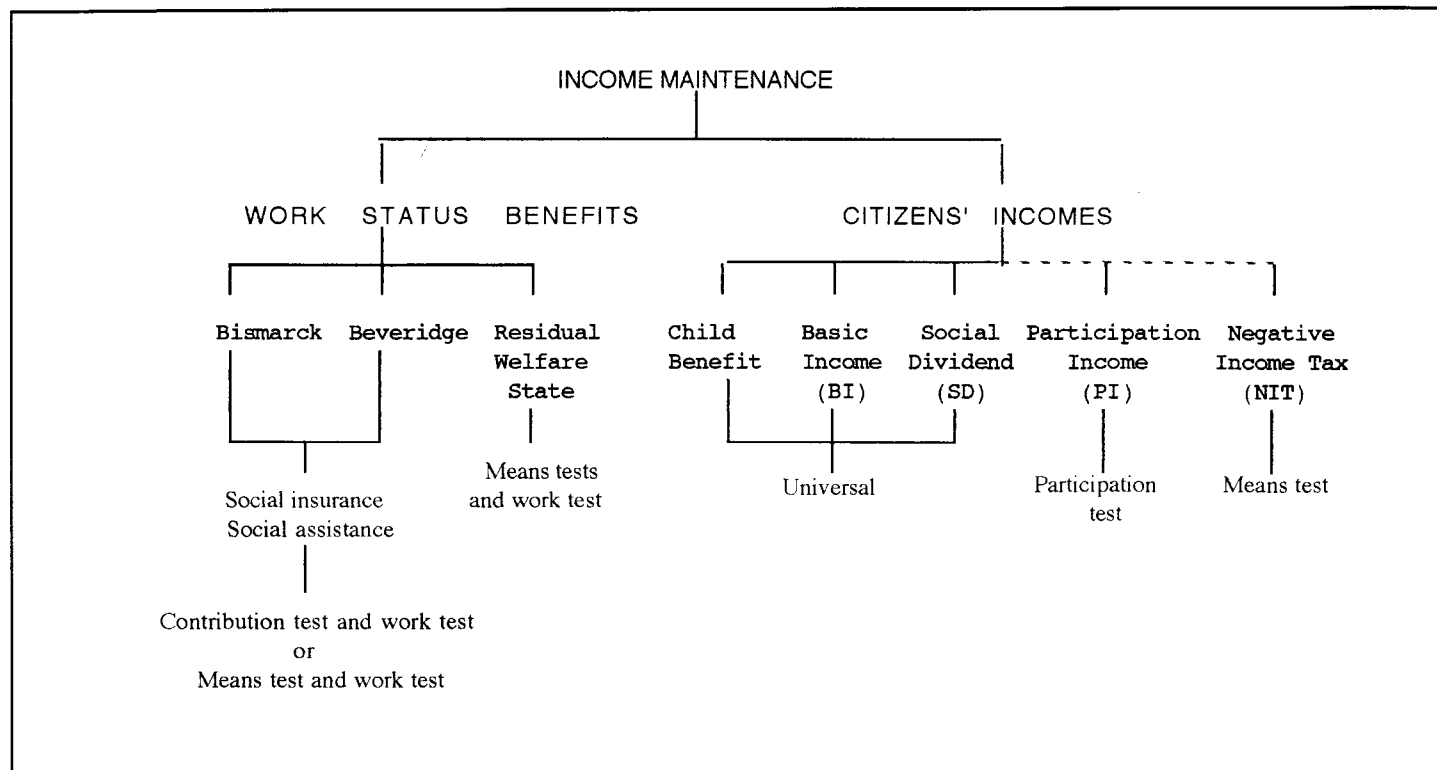
## CHILD BENEFIT FOR GROWN UPS

In its simplest form CI is a flat-rate, tax-free amount, payable on a regular basis, to every man, woman and child who is legally resident in the country of payment. The unit of assessment is the individual — irrespective of age, gender, marital status or work status. What makes *Basic Income* different from other CI systems is the integrated income tax (or BI contribution) by which it would be financed. The BI contribution would be payable on all (or almost all) income apart from the BIs, and the revenue from it would be credited to an account called the *Transfer Income Account* — kept separate from the rest of the government's finances — and spent exclusively on the BIs. The idea is in many ways similar to National Insurance and the National Insurance Fund. The difference is that the tax base would be widened to include personal income from all sources, and the basis of entitlement to the BIs would be widened to include every legal resident. Taking a life-cycle view, during childhood virtually everyone would be a net recipient, during working life most people would be net contributors (either through their tax payments or their unpaid work), in old age most people would once again be net recipients.

Different CI proposals pay different amounts and use different financing methods (Figure 1). While BI would be financed through the BI contribution, *social dividend* is financed out of the profits of industry: for instance Alaska boasts a social dividend financed out of oil revenues.<sup>2</sup> *Participation Income* resembles BI except that it imposes a work test, although for the purpose of the test its author Professor A.B. Atkinson defines work as any useful sort of 'participation'.<sup>3</sup> *Negative income tax* (NIT) is on the border-line between CI and a residual welfare state, especially when it involves a work test. Britain's *Family Credit* is essentially a work-tested, means-tested NIT, although the fact that it is payable for six months at a time brings it closer to BI than was probably intended.<sup>4</sup> Other CI proposals rely on 'green' taxes. But the underlying principle of a right based on citizenship runs through them all.



Figure 1: Income Maintenance Family Tree



Because of its universality, CI is often compared to child benefit.<sup>5</sup> At £10.80 a week for first children and £8.80 for each child after the first, child benefit in the UK represents barely one-third of the estimated minimum costs of a child,<sup>6</sup> yet it is hugely popular with parents (especially mothers)<sup>7</sup> because it is a base on which they can build through paid work, without breaking the law or being subjected to the high benefit withdrawal rates associated with means-tested benefits.

The difficulty is that as soon as children reach adulthood (defined in the UK as age 16 if they leave full-time education, otherwise age 19), child benefit is replaced by a mind-boggling array of benefits and allowances which few young people understand, and which seem designed to exclude as many of them as possible. On reaching age 18 they can claim income support (at a low rate),<sup>8</sup> but only if they are 'out of work but available for work', not if they spend 16 hours a week or more in education or training or do voluntary work — a ludicrous situation.

### THOMAS PAINE AND THE UNIVERSAL RIGHT TO 'NATURAL PROPERTY'

The origins of CI can be traced to the writings of Thomas Paine (1737-1809), Norfolk-born son of a Quaker and the first international revolutionary.<sup>9</sup>

Although Paine never used the term Citizen's Income, he advocated a rudimentary form of it in his essay *Agrarian Justice*. Every person, he said, should receive a lump sum payment of £15 on coming of age, and an annual income of £10 on reaching age 50.

Although a liberal in his defence of individual property rights, in his concern with poverty and inequality Paine was a radical republican. As argued by Paine — and others — part of the case for CI rests on the proposition

that the world's natural resources initially belonged to no one, therefore everyone has an equal right to them. Although each of us is full owner of the goods we have legitimately acquired — which should not be taxed for redistributive purposes — taxation of the *natural element* of material wealth, and its subsequent redistribution to those most in need, is legitimate:

"In advocating the case of the ... dispossessed," he wrote, "it is a right and not a charity that I am pleading for."<sup>10</sup>

### A NEW SOCIAL CONTRACT

The CI movement is not restricted to Britain; it has supporters throughout Europe, in North and South America and in Australasia. In Western Europe, there is mounting concern about the effects of existing social security systems. In Britain since 1979 successive Conservative administrations have tried to control expenditure by moving towards a means-tested, work-tested welfare state. However, the main result of their policies has been to make the rich richer and the poor poorer, while depriving lower-paid families of their economic independence.

Meanwhile middle England — too 'rich' to qualify for means-tested welfare but too 'poor' to gain from the cuts in higher-rate income tax — has been left high and dry, hoping against hope that they can hang on to their jobs.

Citizen's Income could change all this.

Behind all CI proposals there lies a three-fold strategy:

- To prevent poverty, instead of merely relieving it.
- To free up the labour market.
- To strengthen family and community life.

**Figure 2: 1996-97 tax/benefit system compared with TBI system**  
Single-wage couple with two children

*Weekly value of income tax allowances at 24% tax, plus child benefit in 1996-97, compared with TBIs of £17.75 plus earned-income tax credit (EITC) of £6.50.*

	Present system		Illustrative TBI system
	1996-97		1996-97
Tax allowance, Dad	17.38	BI, Dad	17.75
		EITC, Dad	6.50
Tax allowance, Mum	0.00	BI, Mum	17.75
Married couple's tax allowance	5.16	EITC, Mum	0.00
Child benefit, Jack	10.80	BI, Jack	17.75
Child benefit, Jill	8.80	BI, Jill	17.75
<b>TOTAL</b>	<b>42.14</b>	<b>TOTAL</b>	<b>77.50</b>

None of these objectives can be achieved at a stroke. It will take many years to replace the mistakes of the present system with something more suited to post-modern times.<sup>11</sup>

## TRANSITIONAL BASIC INCOME (TBI)

Basic Income is a guaranteed, tax-free amount credited automatically, each week or month, to every man, woman and child as a right of residence — either in cash or as a credit against their income tax — with no distinctions between men and women, married and single, in or out of paid work. However, it would be impossible to introduce a viable BI — sufficient to live on — at a stroke.

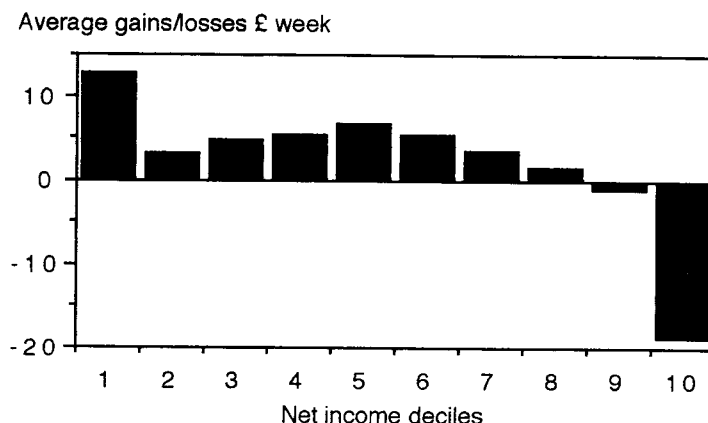
That is why most people who have studied the subject recommend BIs which start small and increase slowly, in line with economic growth and public opinion. They are called transitional BIs.

This financial year transitional BIs (TBIs) of £17.75 a week for every man, woman and child would be revenue neutral, assuming a starting rate of income tax of 26% (no 20% or 24% bands), 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).<sup>12</sup>

For low earners, this proposal is fairer and more generous than the present system. This year's personal tax allowance is £3,765. On a weekly basis it is worth £29.00 to people who pay tax at 40%, £17.38 to people who pay tax at 24%, £14.50 to people who pay tax at 20%, and *nothing at all to people without the income to set against it*. With BI all taxpayers would receive a fixed-amount credit against their tax of £17.75, while non-taxpayers (including children) would receive the TBI in cash.

A change of this sort would produce a double redistribution of income, first from top to bottom and secondly sideways in favour of families with children, especially those dependent on a single wage. Not only would each child receive £17.75 a week — instead of

**Figure 3: Redistributive effects of transitional BIs of £17.75 a week, UK 1996-97**



Source: Polimod<sup>13</sup>

£10.80 for the first child in a family and £8.80 for each successive child at present — but non-earning mothers (or fathers) would also receive £17.75 in cash. A two-parent, two-child family where the father is a standard-rate taxpayer would get £77.50 in credits, compared with £42.14 under the existing system (Figure 2).

How would the TBIs be paid for? In two ways: first by reducing most existing benefits by the TBI amounts, second by making the income tax system more progressive. The 20% starting rate of income tax would go and two new rates of income tax (45% on incomes above £45,000 and 50% on incomes above £65,000) would be introduced. The standard rate of income tax would increase from 24% to 26%, but the rate of NI contribution would go down from 10% to 9%. So most wage earners would pay tax + NI contribution at 35% instead of 34% at present, but the *net tax liability* of low earners (after adding in their BIs) would go down, especially low earners with children.

These higher tax rates are necessary to pay for the BIs, to withdraw them from people who do not need them and to make Britain's tax system more progressive. But it is important to understand that this scheme is not a policy proposal, it is purely illustrative. Much more work would be necessary before any such scheme would be ready for the statute book.

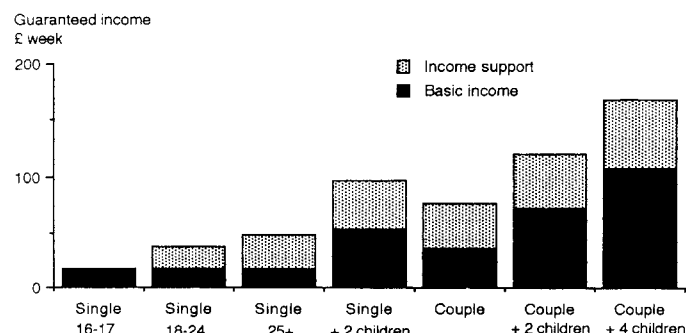
Figure 3 shows the redistributive effects of the scheme on the population as a whole. Families in the bottom tenth of the income distribution would gain over £10 a week on average, while families in the top tenth would lose almost £20 a week on average.

## Trampoline or trap?

Some readers may find these proposals disappointing. Citizen's Income Trust is often asked: *What is the point of going to all the trouble of paying BIs of less than £20 a week, when income support is so much higher?*

The answer to this question is that Rome was not built in a day. The purpose of transitional BIs is not to raise

**Figure 4: Trampoline or Trap**  
TBIs of £17.75 compared with Income Support, 1996-97



living standards on Income Support, but to *replace* Income Support — with its well-known disincentive effects — by a benefit on which people can build through their own efforts, without disobeying the law or facing marginal tax rates of over 100%.

Paying people to do nothing is no way to run an economy. Before the BIs can be raised to acceptable levels, output has to rise and unemployment has to fall. To facilitate this process, people who at present are caught in the unemployment and poverty traps have to be encouraged and enabled to contribute to the economic growth necessary to finance higher BIs.

If a scheme like 'TBI 96' were introduced, no family on IS would lose out, even at the very beginning. The difference would be that more than half their benefit would become a trampoline instead of a trap. In Figure 4 each column measures the weekly IS entitlement (excluding housing) in 1996-97 for the family type shown at its base. The black

sections of the columns represent the BI entitlements for the same family types. The purpose of the diagram is to show that even with quite small BIs of £17.75 dependence on IS would fall substantially; and that 16-17 year olds would get an independent income for the first time.

If an unemployed family did not claim the IS due to them, they would be free of all earnings restrictions, the first £25 a week earned by each family member would be tax-free, and if their incomes were still too low to live on, residual family credit, housing benefit and council tax benefit would remain. Those unable to find or undertake paid work would be able to top up their TBIs with IS (subject to all the usual restrictions). Provided even a small minority chose *not* to claim IS, benefit expenditure would go down, tax revenues would rise and the process could become cumulative.

*In 1995-96 a single-wage couple with two children, where the father earned two-thirds average male manual earnings and paid average local authority rent, paid 36% of their earnings plus child benefit in income tax, NI contribution, council tax and rent, compared with 20% in 1979 — a situation which has to change.*

**Figure 5: Estimated expenditure on existing income maintenance programmes**

	£ million
● <b>Cash benefits:</b> national insurance benefits, child benefit, family credit, housing benefit, income support, student grants, training allowances etc	100,000
● <b>Income tax allowances and reliefs:</b> personal income tax allowances, private pension tax reliefs, mortgage interest tax relief (MIRAS) etc	50,000
● <b>Administrative costs:</b> Department of Social Security and Department of Education and Employment:	5,000
● <b>Total expenditure</b>	<b>150,000</b>
● <b>Average weekly cost per man, woman and child</b>	<b>£50</b>

## PAYING FOR IT

While a full BI for everyone may be neither feasible nor desirable (because of its effects on work incentives), a partial BI for everyone, together with BI supplements for pensioners, for people with disabilities and for carers, is both desirable and feasible, but only if the tax system is made more progressive. Nobody is suggesting a return to the income tax rates of the 1970s, but the balance has swung too far in the other direction. One result is that people in the bottom 20% of the population are paying a higher proportion of their incomes (including state benefits) in tax than people in the top 20%.

Another result is that the *break-even points* at which tax paid equals benefit received are too high. For any given benefit, the lower the rate of income tax, the higher the break-even point at which tax paid equals benefit received and above which better-off benefit recipients start to pay *more* in income tax than they

receive in benefit. This is particularly important in the case of old age pensioners, many of whom receive occupational or other pensions in addition to the state basic pension. Assuming an income tax rate of 20% and an old age pension (or BI) of £100 a week, pensioners would not pay more in income tax than they received in State benefit until their other taxable income reached £500 a week, compared with £250 if the income tax rate were 40%.

It is important that CI supporters understand that universal benefits are incompatible with very low rates of income tax. However, mass dependence on means-tested benefits is even worse. The optimum solution will almost certainly require a careful mixture of universal and income-tested benefits, together with a starting rate of income tax at 33%-35% — *but with no NI contribution.*

This compares with a starting rate of income tax at 20% and a standard rate of income tax at 24% now — *plus* NI contribution at 10% — bringing total liability for most wage earners to 34%.

At present central and local government operate a labyrinth of systems to prevent or relieve poverty, most of which fall short of the mark, are difficult to understand and costly to administer. Although up-to-date figures are hard to come by, the total cost is about £150 billion a year — £50 a week for every man, woman and child — and a great deal of the expenditure is counter-productive.

That means that CI is affordable. The opposition to it is almost entirely political.

## THE CASE FOR BASIC INCOME

The advantages of BI are summarised in Figure 6. Those who say BI is too expensive are likely to be complaining about its redistributive effects for them personally. Since the 1980s the tax and benefit systems have been used to redistribute income upwards (from poor to rich) and sideways (from families with dependent children to families without). BI would reverse this process — not at a stroke, but gradually.

**BI would tackle poverty** by providing an income on which people with low earnings potential can build through paid work and savings.

**BI would tackle unemployment** by abolishing National Insurance contributions for employees and employers, making British labour more competitive in world markets and with machinery.

**BI would facilitate economic growth** by increasing work incentives and providing guaranteed incomes during training, re-training and study (*including for 16-17 year olds*).

**BI would strengthen family life** by providing guaranteed incomes for women (or men) who give up paid work to care for children, the sick or the elderly. It would also give people the option of doing unpaid work.

**BI would create a less divided society**, with everybody subject to the same ground rules.

**BI would be easy to understand, easy to access and easy to administer**

Today, as we approach the millennium, many of our fellow citizens are existing on incomes below the Income Support levels laid down by Parliament. They cannot get Income Support, because they do not understand the system, or are too proud to claim, or are not 'available for work'. With BI every legal resident would enjoy the same basic income security throughout their lives.

*Hermione Parker is the Editor and Susan Raven is the Assistant Editor of the Citizen's Income Bulletin.*

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13. POLIMOD is a programme written by Holly Sutherland as part of her research on policy simulation at the Microsimulation Unit, University of Cambridge. POLIMOD uses data from the Family Expenditure Survey, made available by the CSO through the ESRC Data Archive. Neither the CSO nor the Data Archive bears any responsibility for the analysis or interpretation of the data reported here.

*The outstanding criterion for social rights must be the degree to which they permit people to make their living standards independent of pure market forces.*

G. Esping-Anderson in: *The Three Worlds of Welfare Capitalism*, page 3.

# What kinds of people do we wish to be?

Fred Twine

*In this article, based on a paper given to the European Sociological Conference in Budapest in August 1995, sociologist Fred Twine argues that the right to an income should be viewed — for women as well as for men — as part of a new concept of citizenship.*

To maintain social inclusion, citizenship requires a social right to welfare, including a guaranteed income.<sup>1</sup> At present, not all welfare provisions meet the criteria of a social right, because some citizens are excluded from them. National insurance benefits are essentially full-time male workers' benefits. With high unemployment, job insecurity and growing dependence on part-time work, increasing numbers of citizens find that they cannot build up rights to insurance benefits. When national insurance fails, they fall back on means-tested benefits. In Britain one in seven of the population currently depends on means-tested benefits. Significantly, women rely on means-tested benefits far more than men.

## Means-tested benefits compared with national insurance benefits

A question hovers over all applicants for means-tested benefits: *Are they deserving?* Unlike applicants for insurance benefits, they are required to prove themselves deserving, through intrusive and stigmatising investigations. Means-tested benefits cannot provide a social right of citizenship, because they threaten the integrity of the 'self' — the ability to function as a 'normal' human being.<sup>1</sup>

Increasing reliance on means-tested benefits is leading to increasing social and economic exclusion at the very time when inclusion through labour market participation is becoming increasingly precarious. Labour markets treat workers as commodities to be bought and sold, rather than as human beings to be cherished. Hence the term *commodification*, which derives from Karl Polanyi's book *The Great Transformation*,<sup>2</sup> and can be explained as follows:

"For competitive markets to operate, all factors of production ... have to be given a price. Therefore markets have to treat the labour power of human beings as something to be bought and sold. However, the labour power of human beings cannot be detached from the human beings who carry that labour power. Thus, human beings come to be treated as commodities. It is this central social relationship which has to be addressed in any discussion of social rights."

Twine, *Citizenship and Social Rights*, page 16.

Social rights are essential to the emancipatory thrust of citizenship, because they unchain people from the

vagaries of the labour market. Most citizens require social resources — like free health care and free education — to be able to participate effectively in furthering their own and other people's life projects.<sup>3</sup> As these are social endeavours — created and maintained through social relationships within communities — they cannot be pursued effectively by isolated individuals and their families. *Each must be the protector and sustainer of the civil, political and social rights of all.*<sup>4</sup>

In *The Three Worlds of Welfare Capitalism*, Esping-Anderson argued that: "... the outstanding criterion of social rights must be the degree to which they permit people to make their living standards independent of pure market forces".<sup>5</sup> Thus, "social rights are given the legal and practical status of property rights ... they are inviolable, and ... are granted on the basis of citizenship rather than performance ...".<sup>6</sup>

## Women and the social rights of citizenship

Esping-Anderson's argument is particularly important for the social rights of women. Since all welfare state regimes are built around assumptions of labour market participation, there is an implicit assumption that women should be integrated into the labour market as full or part-time paid workers. However, whether or not they are in paid work, women usually do most of the unpaid work. *Unpaid work is not for men!*

Because of the traditional interdependence between benefit entitlement and former labour market participation, another interdependence — that between men as paid workers and women as unpaid workers — is usually ignored.<sup>7</sup> Yet if women and men are to be equal citizens, and to enjoy the same social rights of citizenship, their interdependence as paid and unpaid workers requires formal recognition.

Men tend to have greater labour market opportunities than women. Unlike most women, they tend to work full-time in the primary labour market. Middle-class men, however, tend to have more labour-market opportunities than working-class men; they are more likely to work in the primary labour market, they do fewer hours of overtime and they receive more fringe benefits. Similarly, middle-class women tend to have more labour-market opportunities than working-class women; they too are more likely to work in the primary labour market and they are better paid.

In terms of social class, opportunities within the labour market produce unequal outcomes for both men and women. Outcomes can never be equal between men and women so long as the means to life depends on selling one's labour. Neither gender can escape the influence of social class inequalities. Gender always has a social class dimension but, importantly, social class also has a gender dimension.

Women lose out in most welfare states because they lose out in the labour market, and they lose out in the labour market because they also lose out in the domestic division of labour. Ruth Lister has called this phenomenon *familialisation*.<sup>8</sup> *Decommodification*, she says — meaning the treatment of men and women as human



beings instead of goods and services — needs to be complemented by *de-familialisation* if it is to provide “a rounded measure of economic independence.”<sup>8</sup>

## **Citizen's Income: Equal rights for women and men?**

A possible answer to these questions may be found in proposals for a Basic or Citizen's Income.<sup>9, 10</sup> Women have a different and less secure life course engagement with the labour market than men have, and there is little direct, independent, financial recognition of their unpaid work. If social rights are to be citizens' rights rather than workers' rights, they must be detached from labour market participation. This is also a growing problem for men.

Writing in 1991, Bill Jordan argued that “all citizens have an obligation to contribute to the ‘socially necessary labour’ — not necessarily paid employment — of their community”.<sup>11</sup> This is what most women do for most of their lives!

More recently Tony Atkinson has argued for a *participation income* whereby conditions may be met by a variety of forms of social participation.

“It would no doubt include: work as an employee or self-employed, absence from work on ground of sickness or injury; inability to work on ground of disability; unemployment, but available for work; engaging in approved forms of education or training; caring for young, elderly or disabled dependants; undertaking approved forms of voluntary work.”<sup>12</sup>

Importantly, the single link with paid work would be broken, and our multi-stranded relationships of social interdependence would be recognised.

As Bill Jordan puts it:

“This means that citizens have in a sense to be accountable to each other, to define public issues and shared concerns in which they must reach agreements over standards of justice. The burdens and benefits of membership in such a community cannot be equalised through markets and auctions, by an invisible hand. The political process must be visible, involving shared resources and public standards, in order for citizens to be able to recognise common interests, and organise themselves for the common good ... they are required to identify with each other and with their community, and not simply to seek the critical success of their own life.”<sup>13</sup>

Each must be the defender of the citizenship rights of all. As the creators and recreators of our social worlds we still have a choice as to how we answer the question: *What kinds of people do we wish to be?*

*Fred Twine is Senior Lecturer in Sociology at the University of Aberdeen.*

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*If social rights are to be citizens' rights rather than workers' rights, they must be detached from labour market participation.*

**Fred Twine**

# OBITUARY

## Stanley Booth-Clibborn

### Anne Miller writes:

This is a personal memory of Stanley Booth-Clibborn, whom I first met in 1991, soon after he became a trustee of the Citizen's Income Trust. By that time he had been Bishop of Manchester for twelve years. In the spring of 1992, he was beset by coronary problems and retired as Bishop in October, on his 68th birthday. He and his wife Anne moved to Edinburgh, barely a mile from my own home. So we occasionally travelled together on the London train, for Trustees' meetings and conferences.

In 1994, on a visit to his daughter in Uganda, his car was ambushed and he was shot in the thigh. Fortunately, he made a good recovery from this injury, probably benefiting from the vigour and fitness of his younger days, when he was a keen tennis player. It is ironic that local African bandits should have chosen him as their target — mistaking him for a rich European tourist — because he had worked tirelessly for the rights of all the people of Africa during his sojourn in Kenya in the 1950s and 1960s, when he worked for the Christian Council of Kenya.

During the time that I knew him, he had a very mild, gentle and self-effacing manner and was fairly relaxed about life. So it was only gradually, by listening to others who had known him in his working life, that I came to recognise what a powerhouse of a man he had been — for instance how strong and energetic he had been in working for the marginalised, vulnerable and outcasts of society — and how forceful, passionate and determined he had been in pursuing the causes he believed in.

As a senior member of the Church of England, his outspoken integrity sometimes made him an uncomfortable colleague and a thorn in the flesh of governments. His reputation for courage, determination, a sense of justice, compassion and generosity was well earned. I came to realise what a special and indeed distinguished person we were privileged to have in our midst.

His book, *Taxes — Burden or Blessing? Towards a Christian view on taxation*, was published by Arthur James Limited, in 1991. He was strongly of the opinion that taxation provides opportunities to enact the Christian vision of society, embodying economic justice, welfare and participation. Since the vision of a better society is also the main driving force for most of us in Citizen's Income Trust, he was very much one of us. His knowledge of the welfare state and taxation, and his general words of wisdom, were greatly appreciated.

Our sympathy is extended to his wife Anne, their two daughters and two sons and their families. How sad for all who knew him that this latter stage of his life was cut short so cruelly. It is not often that one can say of someone: "He was truly a good man". We give thanks that our lives were touched by his. We shall miss his kindly face across the table at future trustees' meetings.

Anne Miller is a Trustee of Citizen's Income Trust.

## 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.

## Argentina

### The debate begins

**Rubén Lo Vuolo reports:** The citizen's income (CI) proposal is beginning to be debated in Argentina. Since publication of the book *Contra la exclusión: La propuesta del ingreso ciudadano/Combating exclusion: The Citizen's Income proposal* (see Book Reviews), CI is starting to be discussed in academic circles and is attracting attention in the media: it was reported in certain newspapers, radio programmes and even television. Presentations have also been made to Members of Parliament representing different political parties. The 1995 Human Development Report for Argentina (*El Informe sobre Desarrollo Humano 1995 para Argentina*), to which some of the authors of Ciepp's book contributed, includes information about negative income tax.

The Interdisciplinary Centre for Public Policy Research (*Centro Interdisciplinario para el Estudio de Políticas Públicas*, or Ciepp) is developing a research programme about CI. Four researchers are working in different fields, including human needs, labour market issues, personal taxation, economically dependent groups and political consensus. Ciepp's researchers are also presenting the issues in courses taught in different Argentinian universities. Recently, in international seminars in Uruguay and Mexico, Rubén Lo Vuolo (Ciepp's Director) presented the CI proposal as an alternative to the social security policies currently being promoted in Latin America by the World Bank.

Even though the prevailing orthodoxy on economic and social policies makes it hard to believe that CI will occupy a priority place on the Argentinian public policy agenda, the growing social problems in Argentina and Latin America could create possibilities for the discussion of alternative options to current economic and social policies.

## Netherlands

### Conference in Nordwijk

**Emiel Schäfer reports:** In February the *Vereniging Basisinkomen* organised a two-day conference on Basic Income in Nordwijk, Netherlands, in three parts:

1. Introductory paper by Wouter van Dieren: *The advantages of BI for a sustainable environment.*

2. Discussion groups.
3. Plans to finance a BI: Loek de Groot, Piet van Elswijk. Presentation of a computer programme: Guido den Broeder.

### 1. Advantages of BI for a sustainable environment.

Wouter van Dieren began his talk by drawing attention to a paradox: work is rare, yet work is taxed — while air travel, despite its pollutant effects, is usually tax-free. Why? Notwithstanding neo-liberal claims to the contrary, history has no reports of a free-market economy that is completely free. Success has always been the result of cooperation between government, business, inventiveness, opportunities and labour. A nuisance tax should be levied on anything that damages the environment, and the revenue from it should be used to finance a BI.

### 2. Discussion groups

- **BI and the environment.** The idea of 'green' taxes was broadly welcomed, despite recognition that such taxes could hurt poor people most. The introduction of a BI would protect them from the effects of energy taxes. But BI would be opposed by supporters of the traditional work ethic, and by those who think that natural resources (the gift of God) should be tax-free.
- **Flexibility of labour.** This group included Mr Bos of Manpower Nederland. There was general agreement that a BI could help offset swings in earnings from part-time and temporary work. BI would protect people against poverty and help them escape the poverty trap.
- **Social security.** The group welcomed the implications of BI for less red tape. People would still be able to take out additional insurance against sickness, old age etc, but the bureaucracies in charge of unemployment benefit could employ themselves differently.
- **Case histories.** Victims of the existing system spoke of their experiences, and thought that BI would end the general feeling of insecurity. The obligation to look for work would come to an end, and with it the pressures to apply for jobs that are heavily competed for. Implementing a BI would enable people with jobs to reduce their working hours.

### 3. Financing BI.

Piet van Elswijk's proposals are of particular interest. A new tax would be levied on companies' value added, minus a discount for each employee. Employees' net incomes would remain unchanged, but employers would no longer pay tax on their workers' wages. There would also be a new levy on value added. For example, a shoe factory buys leather and sells shoes. Value added comes from the difference between costs and prices. Elswijk would give employers a bonus of 1,000 guilders (£400) per worker per month. "Not a penny changes," he said. "Companies won't have to pay more but their behaviour will change. It will become 50% cheaper to hire somebody ... Only when a newly hired worker generates more sales, will the company pay more tax." Although van Elswijk is not an advocate of BI, by reducing the tax on labour he could make the introduction of BI easier.

**Guido de Broeder** then presented a computer programme *Effects of BI on unemployment, taxes and incomes* (available on floppy disk), which calculates the effects of BI on employment, incomes and the size of the workforce. Various levels of BI can be fed into the model, as well as different levels of social security benefit and other variants.

## United Kingdom

### Lead up to the general election

**Richard Clements reports:** Will there be much of a debate about 'reform' of the welfare state when the general election campaign begins in earnest? If early indications are anything to go by, then those electors who want to hear the arguments spelt out may well be disappointed.

The comments of the social security spokespersons for the major political parties have been strong on principle but short on detail. And even when they do go into detail, I suspect that it will once again involve tinkering with the present system rather than giving it a radical overhaul — which is strange since I'm sure there is a feeling amongst voters that something much more fundamental is needed.

Part of the problem is the context in which what passes for debate about the future of the welfare state is set. When Chris Smith (Labour's spokesman on social security) saw *The Guardian* headline *End of the Welfare State* soon after he had delivered a fairly low-key speech, he quickly wrote to the paper denying any such intention. Government Ministers are just as keen to promise that the welfare state is 'safe in their hands', while on the sidelines the various lobby groups have an unfortunate tendency to stifle serious debate by defending the indefensible in the existing system.

Such an atmosphere makes it extraordinarily difficult to put the case for Citizen's Income (CI) without being accused of 'destroying' what still remains of the Beveridge Plan. Yet there is a thirst for knowledge about CI which augurs well for the future if, after election fever dies down, the nation is able to come to terms with the sort of 'reforms' that are really needed.

Of course the 'cost' of the welfare state also tends to freeze into immobility those who put forward innovative schemes. 'New' tends to mean 'expensive' in the eyes of those who are so dominated by balance sheet accounting that they cannot comprehend the dynamics of alternative systems.

That is why it is essential to emphasise that political will, not 'cost', is the real determinant.

In this context it is important to give pride of place to those who debunk the 'cost' argument. Geoffrey Renshaw of the Department of Economics at the University of Warwick is one such person. In a letter to *The Guardian* on May 10, he pointed out that demographic change will mean that the cost per head of welfare spending (social security, education and health) would only rise from £2,240 in 1991-92 to £2,600

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## Conference at Warwick University: **REAL FREEDOM FOR ALL**

**Hillel Steiner reports:** A well-attended and highly successful conference on Philippe Van Parijs's widely acclaimed book, *Real Freedom for All* (Clarendon Press, Oxford, 1995) was held at the University of Warwick on 4 May, 1996. Sponsored by the Department of Philosophy and the Department of Politics and International Studies, the conference was organised by Andrew Reeve and Andrew Williams. The programme consisted of three sessions, each devoted to discussion of a different pair of pre-circulated papers, and concluded with a general response by Van Parijs himself.

In the opening session, Peter Vallentyne (Virginia Commonwealth University) argued against Van Parijs that, if the value of endowments were based on a complete measure of opportunity for fully comparable welfare, justice might be expected to require highly targeted and non-universal payments. Robert Van der Veem (University of Amsterdam) suggested that the justice of introducing the maximum sustainable Basic Income (BI) encounters difficulties in those cases where the BI would be less than the conditional social minimum currently provided by the welfare state.

Brian Barry (London School of Economics) began the second session with a paper claiming that, for a variety of empirical and theoretical reasons, the pragmatic case for an unconditional BI is probably stronger than the principled (i.e. justice-based) case advanced by Van Parijs. (See Brian Barry's Review elsewhere in this Bulletin). Robert Sugden (University of East Anglia) challenged the internal logic of Van Parijs' argument, by questioning whether his justification of BI is indeed a valid inference from his basic premise that everyone should have as much real freedom as possible.

The final session saw Stuart White (Nuffield College, Oxford) questioning the moral justification for Van Parijs's suggestion that the tax base for funding the BI should be expanded by introducing a new tax, called an 'employment rent', on scarce jobs. Hillel Steiner argued that the suggested permissibility of implementing BI on a local basis — rather than a global one — lacks a coherently principled foundation in Van Parijs's theory.

Philippe Van Parijs (Université Catholique de Louvain), having played an active role throughout the day's lively discussions, concluded the conference with a compelling presentation of the social problems which had originally motivated his interest in the idea of BI and prompted him to embark on the extended philosophical and economic analysis reported in his book.

*Hillel Steiner is Professor of Political Philosophy at the University of Manchester.*

## **Honorary Degree for Lesley Abdela**

**Tim Symonds reports:** Lesley Abdela, a long-time supporter of Citizen's Income and a key member of BIRG's study group on the implications of CI for women (BIRG Discussion Paper No. 2, *Citizen's Income and Women*, Citizen's Income, 1993), was recently awarded the Honorary Degree of Doctor of Letters by Nottingham Trent University. The degree is a welcome accolade for her work in advancing women in the workplace. In November last year, for similar reasons, she also won the European Commission 1996 *UK Woman of Europe* award.

## **Book Review**

### **INCOMES AND THE WELFARE STATE Essays on Britain and Europe**

**A.B. Atkinson**

Cambridge University Press, 1995, 368 pp

ISBN 0 521 46250 9, hbk, £40

ISBN 0 521 55796 8, pbk, £15.95

#### **David Piachaud writes:**

No economist in Britain in the post-war period has done more than Tony Atkinson to contribute to reasoned and humane debate about inequality in society and the role of the welfare state.

For years the slogan 'To encourage the rich you must give them more, to encourage the poor you must give them less' — now apparently believed by some in the Labour Party — has summed up the thinking of many economists. Issues of poverty have either been ignored or the poor have been regarded as victims of corruption by the welfare state. Atkinson, with formidable analytical and empirical skills and awe-inspiring productivity, yet with no rhetorical extravagances, has cut a swathe through his profession, weeding out much of the cant and hypocrisy. As he states: "The economics of the Welfare State is now centre stage, entering debates about the macro-economy and about the wealth of nations" (p.1).

Atkinson's latest collection of essays is not easy reading and poses some difficult choices, but the content is outstanding. First, he analyses the distribution of incomes in Britain and Europe: the rise in inequality in the UK stands out in comparison with trends in other countries. The second section provides an economic and institutional analysis of the welfare state: in doing so he turns many prevalent ideas on their heads. Discussing the indictment that the welfare state is a barrier to economic growth, he draws on recent studies of economic growth and finds that "the switch from state to private pensions may negatively affect the rate of capital formation, reversing the conclusion that is conventionally drawn" (p.6). Examining unemployment insurance and the conditions attached to its receipt, he shows that in a 'dual' labour market cuts in unemployment insurance encourage a shift from 'good jobs' to 'bad jobs' — the opposite of conventional thinking.

The third section, which considers the future of social policy, has much to say about Basic Incomes (BIs). Atkinson sees the next few years as crucial to the development of social policy, but he has the ominous impression that "we are drifting rudderless" — a sad comment from a member of the Borrie Commission on Social Justice.

He puts forward a radical vision.

Starting from what Beveridge might have written were he alive today — although "ashamed to admit how far we are from achieving the objectives of his Plan" — Atkinson is convinced that Beveridge was right in his



reservations about means testing, and that social insurance still has an important role to play.

The two main obstacles to the introduction of BIs, despite much attention and many supporters, Atkinson sees as being the strong support for social insurance, particularly among the social partners in Europe, and BI's lack of conditionality. His conclusion is that:

"... the most promising route is to complement Modernised Social Insurance with a scheme which preserves the principles of a basic income, of not being means-tested and of being on an individual basis, but which is conditional on participation ... the condition is not paid work; it is a wider definition of social contribution" (p 301).

The conditions would include not only pensionable age, disability or unemployment, but also caring for children or disabled dependents, or doing approved voluntary work or training.

Favouring the name 'participation income', Atkinson believes that "the basic income movement may be making a mistake in changing its name to a 'Citizen's Income' " (p 302). Crucially, he sees a basic or participation income as a complement, rather than an alternative, to social insurance.

These are important ideas, meriting widespread discussion. As Atkinson shows, the opportunity exists to achieve an effective national minimum. Even in these cautious times, much could be achieved by converting income tax allowances into flat-rate BIs and enhancing child benefit — and calling them all 'tax credits' if that is less frightening to voters.

Yet any redistribution has a price. As Atkinson writes, taxation has to be rehabilitated. Sadly, there are many politicians today who are only too ready to say that the present state of affairs is unacceptable, but are terrified to say that there has to be redistribution.

*David Piachaud is Professor of Social Policy at the London School of Economics*

*It does public debate no service to suggest that an effective national minimum can be achieved at no cost simply through more efficient targeting ... Taxation has to be rehabilitated. Progress will only come if sufficient people are willing to say that the present state of affairs is unacceptable and that there has to be redistribution.*

A.B. Atkinson, *Incomes and the Welfare State*, p 304.

## Book Review

### FULL EMPLOYMENT REGAINED An Agathotopian Dream

**James Meade**

Cambridge University Press, 1995, 94 pp  
ISBN 0 521 55327, hbk, ISBN 0521 55697, pbk

**Graham Ingham writes:**

This is only a small book — it's actually an occasional paper from Cambridge University Department of Applied Economics, and was presented at an Institute for Fiscal Studies seminar in November 1995 — but it packs a large punch. Full employment, as the author notes, is back on the political agenda, for the first time in many years; and there is no shortage of material, both journalistic and academic, to fuel the current debate. But I can think of no other contribution that is as impressive, both in the clarity with which the issues are identified and, much more important, in the uncompromising manner in which the implications of those issues are spelt out. Too many commentators are too eager to capture the ear of politicians and policymakers — and in their eagerness they succumb to the temptation to over-simplify or gloss over difficulties.

And difficulties there are, as Professor Meade's analysis makes clear. In his view, full employment, defined here as a rate of unemployment of around 2.5%-3%, is a perfectly reasonable, that is to say attainable, objective. But it involves some pretty radical shifts in attitude. It requires an explicit return to demand management — meaning a proper balance of fiscal and monetary policy, aimed at achieving and maintaining full employment. It also requires a rethinking of contemporary attitudes to inflation. A moderate rate of inflation, in Professor Meade's view, is not only acceptable, it is an important tool of satisfactory demand management. In passing, he has some scathing words for Britain's brief experiment with the ERM and the current fixation with the Retail Prices Index as a measure of inflation.

But while demand management may be a necessary condition for a return to full employment, Professor Meade does not think it is sufficient. A separate chapter on wages and prices underlines his willingness to tackle uncomfortable issues. Without advocating any particular route, he sets out his belief that both prices and wages need to be regulated in some manner, if full employment is to be a sustainable objective.

His arguments will clearly encounter resistance from the right, free-market school. When it comes to wages, though, Professor Meade shows there are, for him, no sacred cows, left or right. He challenges the long held belief of many that everyone should get the same rate of pay for the same job; that, in his view, is an obstacle to the expansion of employment. Wages for new entrants to the workforce need only be pitched at a level which makes entry attractive to them. He envisages his objective being met in a manner which involves a series of "independent decisions ... each of which will have been advantageous to the individuals concerned."

But it is perhaps in the chapter on the distribution of income and wealth that Professor Meade is to be found at his most awkward — at least from the perspective of politicians (particularly, it has to be said, Labour politicians) facing a General Election in less than a year. Britain, as is now well-known, has seen the gap between rich and poor grow wider than it has in any other OECD country since the late 1970s. Neither of the main political parties has specific proposals to tackle that growing inequality in any significant way. Yet Professor Meade is adamant that radical changes in policy are needed to make the unchecked consequences of the policies intended to bring a return to full employment acceptable. One absurdity of the present system could, he argues, easily be removed: the tax on labour represented by national insurance contributions.

Much more significant, however, would be the development of a Citizen's Income, the arguments for which, together with an explanation of it, are clearly, if briefly, set out in Chapter 4 and Appendix B.

For Professor Meade — who was an advocate of CI for sixty years — a scheme on the lines he proposes would offer many advantages, not the least of which would be a major simplification of the current tax and benefits system. Of course, as Professor Meade acknowledges, the potential budgetary cost would be huge. But, as he goes on to point out, that can largely be relieved through a combination of the removal of income tax allowances, the withdrawal of most other welfare benefits and, crucially, a withdrawal surcharge on the lower slices of earned income.

This withdrawal surcharge is, in concept, both elegant and pleasingly simple. The aim is, as Meade says, a great redistribution of personal incomes. But at the same time, for those on low incomes, the scheme would also provide a crucial incentive to increase their earnings when the opportunity arises. In this way, they would be freed from the trap which many of them now find themselves in, whereby most of every extra pound of income earned is immediately deducted from their benefit payments.

Any sensible person concerned about the uneven distribution of income and wealth now permeating British society would at least want to see Professor Meade's ideas for reducing the gap — as part of a programme of recreating full employment — given a proper airing; subject to rigorous enquiry, of course (many ideas are mentioned only briefly in the book), but also to public discussion. The prospects of that happening in the current political climate seem slim, with election-wary politicians above all anxious not to scare off voters with anything that sounds radical. Professor Meade describes his vision as Agathatopian — a good place to live, rather than a perfect one. But for the present, it seems to this author that the dream is actually a Utopian one.

*Graham Ingham is BBC Economics Correspondent, currently on leave as Guardian Research Fellow at Nuffield College, Oxford.*

## Book Review

### CONTRA LA EXCLUSIÓN

#### La propuesta del ingreso ciudadano

Rubén Lo Vuolo (Ed.)

Alberto Barbeito, Roberto Gargarella,  
Claus Offe, Félix Ovejero Lucas, Laura  
Pautassi, Philippe Van Parijs

Ciepp / Miño y Dávila Editores, Buenos  
Aires, Argentina, 1995, 342 pp  
ISBN 950 9467 64 2, Pbk, \$18

Dr Juan Carlos Hidalgo writes:

This is the first book about Citizen's Income (CI) published in Argentina and one of the few publications on CI available in Latin America. Its title can be translated into English as *Combating Exclusion: The Citizen's Income Proposal*. It includes articles by European authors as well as researchers at the *Interdisciplinary Centre for Public Policy Research* (Ciepp)<sup>1</sup> in Buenos Aires. In addition to introducing the theoretical debate, the book puts the discussion in an Argentinian and Latin American context.

There are many reasons why Argentina is an interesting place to debate CI:

- It is one of the countries in Latin America which pioneered the development of social policy institutions: combining social insurance (pensions, occupational health care and family allowances) with universal provision (education, hospitals and housing).
- This fragmented and populist system reached crisis point in the 1980s, when the overseas debt crisis increased the fiscal crisis.
- As a result of these developments, during 1989-90 Argentina suffered an unusual period of hyperinflation.
- Today Argentina is one of the countries where neo-liberal reforms, promoted by the international credit organisations, are being applied in the most extreme way.
- Despite price stabilisation and high economic growth (initially), the reforms have been followed by a marked deterioration in the labour market, increasing income inequalities and deteriorating social services.
- At the same time, other changes have been introduced which increase indirect taxes and make the benefit system more 'targeted'. They therefore weaken the link between taxpayers and beneficiaries.

This book outlines the problems associated with such a strategy. In Argentina, the rate of unemployment has increased from just under 7% to almost 19% in the last three years. The same thing has happened to hourly

under-employment and informal employment. Yet the official solution is further increases in labour market 'flexibility', in order to force down labour costs. The difficulty is that, despite big reductions in labour costs, unemployment and under-employment continue to rise, and the employment conditions of those who still have jobs have also deteriorated. Add to this the privatisation of key areas of social policy and the result is growing social exclusion.

That is why the book is called *Combating Exclusion*. Its purpose is to discuss the ways in which a Citizen's Income could help in the fight against exclusion. And one of its conclusions is that, although the CI proposal was developed on the basis of experiences in richer countries, the debate about it is equally relevant in Latin America, for the following reasons:

- The income gap between rich and poor is much greater.
- Opposition to social citizenship and policies to dismantle the traditional welfare state are much stronger.
- The problems of exclusion and its effects on unemployment and poverty are more evident.
- Discrimination against women and other economically dependent citizens is a mass phenomenon and even more worrying.

From which it follows that, although the national wealth of Latin American countries is lower than in the developed countries, the arguments for a partial CI are totally valid.

In his Introduction, Rubén Lo Vuolo summarises the arguments for and against CI, after which the book is divided into three parts. Part 1 contains translations of Philippe Van Parijs's *Beyond Solidarity*<sup>2</sup> and Claus Offe's *A Non-Productivist Design for Social Policies*.<sup>3</sup> Van Parijs analyses the ethical foundations of different models of the welfare state, in order to justify replacement of the Bismarckian 'insurance' model and the 'weak solidarity' model of Beveridge by an 'equity' ethic, which he identifies with Thomas Paine and Citizen's Income. Offe examines the declining legitimacy of what he calls 'productivist assumptions' (for instance that most families have an employed breadwinner) behind the traditional welfare states, in order to introduce elements which in his judgement are necessary to construct a new political consensus in favour of CI.

Part 2 examines the CI proposal in the context of Argentina and Latin America. In his chapter on the political economy of CI,<sup>4</sup> Lo Vuolo examines its macro- and micro-economic foundations and compares them with the economic orthodoxy currently being imposed on Latin America. After highlighting the failures and shortcomings of those policies, he advocates an alternative economic policy along the lines of James Meade's works. There follows a chapter by Alberto Barbeito — *The integration of the systems of fiscal transfers as an instrument of social integration*<sup>5</sup> — in which, taking Argentina as an example, Barbeito explains the mechanics of integration of the tax and benefit systems and compares current policies with those of CI. His analysis shows that the present (non-integrated) tax

and benefit systems help the rich more than the poor, and provide no guarantee against poverty. Finally, in her article *Ladies ... first? The implications of Citizen's Income for women*,<sup>6</sup> Laura Pautassi discusses the different sources of discrimination against women in Argentina, especially in the labour market. Taking into account current legislation and cultural as well as socio-economic conditions, Pautassi examines the positive implications of the CI proposal for women and children.

Part 3 of the book analyses the political philosophy behind CI from a critical perspective. The chapter by Félix Ovejero Lucas (University of Barcelona) has the title *Universal Citizen's Income : What makes a project emancipatory?*<sup>7</sup> The book closes with a chapter by Roberto Gargarella, *Citizen's Income as an instrument of egalitarianism*,<sup>8</sup> where Gargarella analyses different egalitarian theories and compares the assumptions behind them with those made by CI supporters. By examining the type of society advocated by CI supporters, he is able to identify those aspects of CI which could be key elements in a more progressive and egalitarian society.

The book has four major criticisms of CI, in the Latin American context. The first is cost: the tax burden. The second is political: the difficulties of reaching a political consensus for CI against the present background of neo-liberalism, supported by strong and sometimes authoritarian political coalitions. The third is presentational: why spend money on 'non-poor' groups when poverty is on the increase? And the fourth concerns administration: is an integrated tax and benefit system feasible in Latin American countries, where there is no tradition of collecting direct taxes, where social and political traditions are populist and where the 'work ethic' and 'charity' remain the guidelines for social policy?

So the questions raised are not different from those raised by CI opponents in other countries. What is different is the scenario, which makes Latin America an interesting place for further research.

*Dr Juan Carlos Hidalgo is one of Ciepp's associates and Professor at the National University of the Litoral, Santa Fe, Argentina.*

## Notes and references

1. Centro Interdisciplinario para el Estudio de Políticas Públicas
2. Philippe Van Parijs. *Au delà de la solidarité: Les fondements éthiques de l'Etat-providence et de son dépassement*, Futuribles, Paris, No 184. February 1994: 5-29.
3. Claus Offe, *A non-productivist design for social policies*, in Philippe Van Parijs *Arguing for Basic Income: Ethical Foundations for a Radical Reform*, Verso, London, 1992.
4. *La economía política del ingreso ciudadano*.
5. *La integración de los sistemas de transferencias fiscales como instrumento de integración social*.
6. *Primero ... las damas? La situación de la mujer frente a la propuesta del ingreso ciudadano*.
7. *El ingreso ciudadano universal y los requisitos de los proyectos emancipatorios*.
8. *El ingreso ciudadano como política igualitaria*.

# Book Review

## PENSIONS: 2000 AND BEYOND The Report of the Retirement Income Inquiry

Shelwing Limited, 127 Sandgate Road,  
Folkestone, Kent CT20 2BL, 1995,  
Volume 1, 56 pp, ISBN 0 9527479 0 1, £5.50,  
Volume 2, 158 pp, ISBN 0 9527479 1 X, £10.50

Chris Downs writes:

The report is the result of a little over twelve months' work by a committee of fourteen, set up by the National Association of Pension Funds (NAPF)<sup>1</sup>, under the chairmanship of Sir John Anson. The main report (Volume 1) is accessible and remarkably succinct in dealing with such a complex issue, while assuming very little prior knowledge on the part of readers. It is supported by Volume 2, *Analysis of Trends and Options*, prepared by Paul Johnson, Richard Disney and Gary Stears of the Institute for Fiscal Studies, and four further associated publications covering: social trends and attitudes; employment trends and prospects for older workers to 2030; an overview of international experience; and a summary of evidence received.

The UK is identified as being broadly similar to Canada, Denmark, Japan, the Netherlands and Sweden, in having a flat-rate, first-tier state pension and a compulsory earnings-related second tier. France, Germany, the USA and Belgium, in contrast, provide substantial earnings-related, first-tier social insurance schemes. The UK is marked out as different within its group by adopting a contributory approach — the others provide universal pensions, dependent only on age and residency requirements: a citizen's income for pensioners.

The inquiry team's long-term ambition amounts to privatisation and individualisation of the bulk of pension provision, with only a residual role for elected government through assistance after a test of need. Arguably, nothing could be further from a Citizen's Pension, but the Inquiry could find no way of moving quickly towards their preferred arrangement.

The report has three main proposals:

- Continuation of the basic state pension, and continuation of uprating in line with prices rather than earnings, so that the amount paid will eventually become insignificant relative to living standards.
- Replacement of means-tested income support (Britain's safety net of last resort) by an income-tested *assured pension*, to ensure an adequate minimum income for all pensioners. This is necessary because the basic state pension is inadequate and its purchasing power will not be increased.
- Introduction of a new, compulsory, pre-funded second tier to replace the existing State Earnings Related Pension (SERPS).

The assured pension is similar in principle to the *guaranteed minimum pension* advocated by the Commission on Social Justice,<sup>2</sup> and to the proposals of Frank Field (Labour Member of Parliament for Birkenhead).<sup>3</sup> It would provide a top-up to bring all pensioners' incomes up to a given minimum, taking into account income from all other sources (basic state pension, SERPS, occupational pensions, investments, paid work) but without regard to pensioners' capital assets. In effect what is proposed is a dedicated income-related benefit for pensioners. Withdrawal of benefit would be tapered, that is to say a £ of income in excess of the guaranteed minimum would result in loss of benefit, but the rate of benefit withdrawal would be lower than the 100% by which income support is withdrawn at present.

The report presents arguments both for and against continuation of SERPS, but this is rather superfluous. The report states:

"The Inquiry proposes that the minimum level of contributions to the second tier should be sufficient ... to ensure that the vast bulk of the population will not require an income-related payment to achieve the minimum level of income guaranteed by the Assured Pension."

Given that it is proposed that the basic pension "continues to wither in relation to average earnings", it is acknowledged that this "implies that the level of compulsory contributions to the second tier will gradually need to rise." At present the UK's compulsory second tier comprises a choice of SERPS, or an approved personal pension, or a contracted-out occupational pension. And it is important to note that, currently, *all* compulsory second-tier pension provision impacts on public expenditure — either as SERPS benefits, or as rebates of NI contributions in respect of workers who contract out. Since the reason given for allowing the basic pension to wither away is its cost to the Exchequer, this means that continuing SERPS can hardly have been a serious option for the Inquiry.

However, no compelling economic case against state funding and pay-as-you-go pensions is argued at any stage. The report's conclusion indicates that the Inquiry *believes* an individualised, pre-funded pension system would be more acceptable to the body politic than a pay-as-you-go scheme — especially when the necessary contributions have to be increased in the future. No evidence is provided in support of this contention, and some commentators have countered by suggesting that voters will perceive higher compulsory pension contributions as increased taxation 'by the back door'. However, National Insurance Contributions have always been perceived by many as different to a tax, and the realisation that they are not is a source of disaffection with the present system — as interviewees in a recent BBC Panorama programme on the welfare state revealed.

Thus the key feature of the Inquiry's proposals is not the element of compulsion, but the individualisation implied by pre-funding on a defined contribution basis.

The alternative of a citizen's pension is considered briefly in volume 2 of the report, but it can hardly have been a serious option, for the same reason as outlined above in regard to SERPS — it would involve public sector

funding. However, the Inquiry offers another argument against citizen's pension. Poor pensioners, it says, would not benefit and those most likely to benefit would be the spouses of relatively well-off pensioners. Yet on the figures presented in the report, two-thirds of the beneficiaries would be in the lower two of the four income bands given, because those are the most populous bands!

The administrative cost savings achievable by switching from social insurance, with the need to keep contributions records, to a citizen's pension are put at £200 million per year, but would certainly be larger if allowance were made for employers' compliance costs. It would seem, therefore, that a case needs to be made for keeping the contributory principle rather than a case for abolishing it!

*Chris Downs is Senior Lecturer in Economics and Financial Services in the Business Finance Faculty at Southampton Institute. Previously he was Manager, Political and Economic Research at the Association of British Insurers.*

## References

1. NAPF represents occupational pension funds in the UK.
2. Commission on Social Justice, *Social Justice: Strategies for National Renewal*, Vintage, 1994
3. Frank Field, *Making Welfare Work: Reconstructing Welfare for the Millennium*, Institute of Community Studies, London, 1995.

## 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 Incomes (world-wide). If you know of something you think is relevant, please send a copy to: The Editor, CI Bulletin, Citizen's Income Study Centre, St Philips Building, Sheffield Street, London WC2A 2EX.*

**Real Freedom for All: What (if anything) can justify capitalism?** Philippe Van Parijs, Clarendon Press, Oxford, 1995, 330 pp, ISBN 0-19-827905-1, hbk.

"Capitalist societies are full of unacceptable inequalities — Freedom is of paramount importance." Yet these two widely shared convictions often seem in conflict. Fighting inequality jeopardises freedom — taking freedom seriously boosts inequality. How best to square the circle? For Philippe Van Parijs the answer lies in a Basic Income. **For comment, see Brian Barry's article *Surfers' Saviour?* in this Bulletin, and Hillel Steiner's report on a recent workshop at Warwick University in HOME AND ABROAD.**

**Contra la Exclusión: La propuesta del ingreso ciudadano**, Rubén Lo Vuolo (ed), Alberto Barbeito, Roberto Gargarella, Claus Offe, Félix Ovejero Lucas, Laura Pautassi and Philippe Van Parijs, Ciepp / Mino y Dávila Editores, Buenos Aires, Argentina, 1995, 342 pp. ISBN 950 9467 64 2, Pbk, \$ 18. Like other countries in the Western world, Argentina is suffering increasing unemployment, poverty and exclusion. This is the first book published in South America in which Citizen's Income is advocated. **See book review by Juan Carlos Hidalgo.**

**Incomes and the Welfare State: Essays on Britain and Europe**, A.B. Atkinson, Cambridge University Press, 1995, 368 pp, ISBN 0 521 46250 9, hbk, price £40, ISBN 0 521 55796, pbk, price £15.95.

A collection of essays written between 1989 and 1994 as part of the Welfare State Programme at STICERD, London School of Economics. Readers with a particular interest in Basic Income are advised to turn to Chapter 15, *Beveridge, the national minimum and its future in a European context*, where Atkinson puts the case for a Participation Income. **See book review by David Piachaud.**

**There May Be Trouble Ahead: Why occupational pensions and permanent health insurance are no substitutes for a state disability income scheme**, a joint study by Marilyn Howard (Disability Alliance) and Pauline Thompson (The Disablement Income Group), 40 pp, ISBN 0 946336, September 1995, pbk, £6.75. **See article by Marilyn Howard and Tim Lawrence elsewhere in this Bulletin.**

**Full Employment Regained?** J.E. Meade, Cambridge University Press, 1995, 94 pages, ISBN 0 521 55327 X, hbk, ISBN 0521 55697, pbk. This splendid little book is James Meade's last published work. **See Book Review by Graham Ingham.**



**A Synthesis of National Family Policies, 1994**, John Ditch, Helen Barnes, Jonathan Bradshaw, Jacques Commaille and Tony Eardley, 141 pp, ISBN 1 871713 85 4, pbk, 1995. **Developments in National Family Policies in 1994**, John Ditch, Jonathan Bradshaw and Tony Eardley, 149 pp, ISBN 1871713 75 7, pbk, 1995. Both volumes published by the University of York, under the auspices of the European Observatory on National Family Policies. The latter was established by the Commission of the European Communities to monitor changes in family forms and family policies in all member states of the European Union. Two Reports are produced yearly.

The Synthesis Report analyses developments on key issues. The Developments Report informs readers about developments in each country. For instance, this edition reports that in Ireland the programme of the new coalition government includes a BI for children, through improvements in child benefit.

**The advantages and disadvantages of the contribution base in targeting benefits: A social analysis of the insurance scheme in the United Kingdom**, Pete Alcock, International Social Security Review, Vol. 49, 1/96, ISSA, Case postale 1, CH-1211 Geneva 22, Switzerland, 1996, 20 pp, ISSN 0021-871X, Swiss F 15.

Towards the end of this article Pete Alcock includes an interesting assessment of 'universal benefits' or 'Basic Incomes'. Such a reform, he says, could be revenue-neutral in overall terms, but in that case the BI would be too low to replace all existing provisions.

**Debate: Citizen's Income**, James Robertson, Ronald Dore, Philippe Van Parijs, A.B. Atkinson, The Political Quarterly, Volume 67, No. 1, January-March 1996, 17pp, ISSN 0032-3179.

The debate comprises articles by James Robertson, arguing the case for a comprehensive reform package including eco-taxes, the introduction of a CI, and a new social compact; Ronald Dore and Philippe Van Parijs, arguing in their different ways for CI as a means of combating social exclusion; and Tony Atkinson arguing for a *Participation Income* as a complement to modernised social insurance. For all the rhetoric about 'targeting', says Atkinson, means-testing has not worked and a major aim of policy should be reduced dependence upon it.

**One Step Nearer to Genuine Citizenship: Reflections on the Commission of Social Justice Report**, Ruth Lister, Soundings, Issue 2, Spring 1996, Soundings Ltd, c/o Lawrence & Wishart, 99 Wallis Road, London E9 5LN, ISBN 0 853 158193.

A most helpful article for those who had difficulty understanding what the Social Justice Commission was getting at! In nailing its flag to the objective of full employment and the centrality of paid work as the best route out of poverty, the Commission was effectively "positioning itself to reject the main alternative non means-tested strategy to that of social insurance, i.e. a citizen's income". However, in doing so, and having considered the main arguments for and against CI, the Commission advised against ruling out CI in the longer term. Also, on the question of citizenship obligations, an important distinction was drawn between "measures which accept that unemployed people have a responsibility to be available for work which it is reasonable to expect them to do ... and measures designed to force the unemployed into inappropriate and unacceptably low-paid jobs". Concerning CI, however,

there remains a certain tension at the heart of the Report, for example how to reconcile "identification of paid work as the best antidote to poverty and economic insecurity with ... recognition of the value to society and citizenship of the unpaid caring work still primarily undertaken by women". That is why the Commission supported Tony Atkinson's proposals for a Participation Income, which can be seen as a step down the road to a fully fledged CI, subject nevertheless to the condition of active citizenship.

**Means-testing the Unemployed in Britain, France and Germany**, Martin Evans, Discussion Paper WSP/117, 51 pp; **Families on the Dole in Britain, France and Germany**, Martin Evans, Discussion Paper WSP/118, 75 pp; **Housing Benefit Problems and Dilemmas: What Can We Learn from France and Germany?** Martin Evans, Discussion Paper WSP/119, 76 pp. All three papers available free of charge from STICERD, London School of Economics.

Although none of the papers refers to CI, all provide useful background information and analysis of the effects of existing systems on incentives. Of interest also is Martin Evans' bid for increased use of discretion in Britain, with the important proviso that "discretionary powers are most effectively and efficiently used on a small and selective population. When 80% of the unemployed are means-tested ... mass unemployment cannot be left to discretion" (WSP/118, p 57). Would a partial BI open the way to greater use of discretion (positive as well as negative) in the UK?

**Thinking the unthinkable**, Economist, 27 April 1996.

Having acknowledged the perverse effects of means-tested welfare on incentives, the Economist takes a brief look at CI and finds it "fatally flawed". Quoting Andrew Dilnot of the Institute for Fiscal Studies (IFS) as their source: "a CI that was sufficient by itself to keep recipients out of poverty would be hugely expensive — for the simple reason that it would be paid to everybody, not just the poor." Since any practicable CI would need to be heavily supplemented by means-tested benefits, attention will still have to concentrate on ways to mitigate the undesirable side-effects of such benefits.

Is not the Economist missing the point? Nobody is claiming that means-tested benefits can be 'magicked' away. The problem is one of over-reliance upon them. Even quite small (transitional) BIs of £20 a week would significantly reduce the scale of the problem.

**Fundamental Values for a Third Left**, Jan Otto Andersson, New Left Review 4/96, 120-126 Lavender Avenue, Mitcham, Surrey, CR4 3HP, 1996, ISSN 0028 — 6060 216/1996, £4.50.

Since 1988 the author has been engaged in the launching of a new party of the Left in Finland. The First Left emerged with the American and French revolutions, the Second Left was proletarian — the main vehicle of the welfare-state project. The Third Left implies "an effort to construct an acceptable ideological and political platform that can challenge the neo-liberal hegemony". Citizen's Income falls within their terms of reference.

**Pensions: 2000 and Beyond. Volume 1, The Report of the Retirement Income Inquiry, Volume 2, Analysis of Trends and Options**, Paul Johnson, Richard Disney and Gary Stears, Institute for Fiscal Studies, Shelving Limited, 127 Sandgate Road, Folkestone, Kent CT20 2BL, 1995, Volume 1, 56 pp, ISBN 0 9527479 0 1, £5.50,

Volume 2. 158 pp. ISBN 0 9527479 1 X, £10.50. See book review by Chris Downs; and article by Hermione Parker for Parliamentary Brief (Excerpt from the Press).

**A secure future? Social security and the family in a changing world**, Lisa Harker, CPAG Ltd, 1-5 Bath Street, London EC1V 9PY. 1996, 42 pp, ISBN 0 946744 79 3, pbk, £5.95.

Employment patterns and family structures have changed radically in the past 50 years. Lisa Harker compares nine reform models — including Basic Income — against a single set of criteria. While a number of the models warrant further attention, she says, “the family and work model, combining support for children and child-rearing responsibilities, comes closest to satisfying the proposed criteria” (p 38). Although the quantitative part of her analysis lacks rigour — her preferred model is not costed — the approach is interesting and useful.

**Welfare: A radical rethink — the Personal Welfare Plan**, Andrew Dobson, Centre for the Study of Financial Innovation (CSFI), 18 Curzon Street, London W1Y 7AD, 1996. 13pp, pbk, £25 (£15 non-profit institutions).

No one seriously doubts that Western welfare states are in crisis, hence the ubiquitous cuts. However, more must be done and radical approaches must be taken seriously. Andrew Dobson, a banker, is looking for solutions that are “do-able” and go with the flow of free markets. The essence of his idea is a *Personal Welfare Plan (PWP)*, meaning a personal, tax-privileged fund which each individual would be encouraged to set up on reaching age 18. Unlike present funds the PWP could be used for a range of purposes — pensions, healthcare, education, unemployment, perhaps first-time home ownership and care of dependent relatives. More radical still, in addition to the PWP each person would be entitled to a ‘core’ level of benefit covering healthcare, education, unemployment and pensions. This would be available to all, on an unconditional basis, would be set at whatever level society deemed to be the level below which no one should be allowed to fall, and would be provided through a set of vouchers, redeemable only for the services for which they were intended.

This is the first time that a proposal so close to Citizen’s Income has emanated from the City of London.

**The Importance of Making Work Pay**, Paul Gregg and Jonathan Wadsworth, Employment Policy Institute, Southbank House, Black Prince Road, London SE1 7SJ, March 1996, 4 pp, pbk, £4.00.

The interaction of low entry wages, taxes and benefits means that only those jobless people with a working partner find that it pays to work, and this in turn is a major cause of the burgeoning welfare budget. At an estimated cost of £7,500 million the authors propose a strategy to improve work incentives through a combination of tax reductions at the bottom of the earnings distribution, a minimum wage of about £3.50 an hour, and “mutually supporting benefit reforms”, for instance lowering tapers to 50p in the £. Such an approach, they say, offers a way to increase incentives and halt the growth of benefit expenditure. Incredibly, they recognise the limitations of increased tax allowances — around one quarter of entry jobs pay below the personal allowance level, part of which is therefore forfeited — but they make no mention of CI as a necessary part of the proposed package.

**The tale of Mrs Typical**, Heather Joshi, Hugh Davies and Hilary Land, Occasional Paper 21, Family Policy Studies Centre, 231 Baker Street, London NW1 6XE, 31 pp, ISBN 0 907051 91 X, pbk, £7.50.

This report enumerates the effects of motherhood on a woman’s earnings and pension entitlements. Each Mrs Typical is a case study, representing a modelled lifetime: Mrs Typical gets married, uses child-care, goes to Europe, gets divorced and retires. Her reduced earnings inevitably affect her pension entitlements. On the grounds that women should not be expected to bear the greater costs of raising children, the report argues for more ‘family friendly’ policies, supportive of combined employment and child rearing. As Ceridwen Roberts notes in her Introduction: “We are only just beginning, in public debates in Britain, to grapple again with the notion of children as a social investment rather than a private good.” However, among the policy proposals listed the authors prefer the Peter Townsend and Alan Walker proposals reviewed in CI Bulletin 21 (Townsend, P. and Walker, A, *New Directions for Pensions: How to Revitalise National Insurance*), European Labour Forum).

CI is not mentioned.

**New Inequalities: The changing distribution of income and wealth in the United Kingdom**, John Hills (ed), Cambridge University Press, 1996, 394 pp, ISBN 0 521 55698 8, pbk, £16.95, ISBN 0 521 55326 1, hbk, £50.

Nearly twenty years after the then Labour government established a Royal Commission on the Distribution of Income and Wealth (in 1979), the Joseph Rowntree Foundation set up a research programme on different aspects of trends in the distribution of income and wealth (1992). This book brings together the results of twelve of the projects within that research programme, plus a new introductory chapter on income distribution by Professor Tony Atkinson. We hope to include a review of this book in CI Bulletin No. 23.

**UBI Newsletter, May 1996**, Manawatu Working Party on Universal Basic Income (UBI), C/- Private Bag 11 042, Palmerson North, New Zealand. Ph (06) 350 6300, Fax (06) 350 6319, e-mail via: di.parsons@psa.union.org.nz

The editor is Ian Ritchie. The instruction is: *Please photocopy & Pass on*. The number of pages is eight. The content includes accounts of BI events in New Zealand as well as articles and comment. The latest edition has a lively article by Rendall Conwell, putting the case for UBI. The tightly targeted systems of the present regime, he says, are patent failures. The difficulty is that government propaganda constantly emphasises the advantages of ‘targeted’ systems, so most people have never heard of UBI. Just like the UK!

# VIEWPOINT

## Trickle-up ...

**Hans Breitenbach**

*Citizen's Income (CI) could reduce social disintegration, structural unemployment and environmental degradation simultaneously. But it will not be able to do so unless it is introduced at an adequate level, and is combined with cuts in wage rates and the introduction of a national minimum wage.*

Since 1979 voters have been inundated with promises based on the alleged benefits of *trickle-down* ... from rich to poor. The problem is that trickle-down doesn't happen. Not only are today's poor relatively poorer and in some cases absolutely poorer than in 1979, but their job prospects and their quality of life have been reduced by tax changes in favour of the rich. In what follows I shall argue in favour of a policy which would be the exact opposite of trickle-down — a strategy for 'bottom up' economic revival, starting with the under-privileged and working its way up, like rising sap, for the benefit of the whole community.

This reinvigoration of the economy would follow upon a correctly introduced Citizen's Income or CI (meaning a universal benefit paid to all citizens). It would, at the same time, tackle the two other most serious threats to advanced capitalist societies, namely the progressive deterioration of the environment and the rise of structural unemployment.

These additional benefits are contingent upon the way CI is conceived and introduced. They require that CI be seen as the first tranche in everyone's wage, with income from work simultaneously reduced, although in most cases by a somewhat lesser amount. Everyone in work would have a dual income, their CI from the state plus their earnings, which would be lower than before. Where people have no earnings, their only income would be the CI, which would be equal for everyone. This proposal has the important corollary that while a person's work does not come any more cheaply to society as a whole, its cost to individual employers — public or private — is reduced. Moreover it is reduced at the point where the decision is taken whether or not to employ someone.

### Market mechanism out of 'sync'

To appreciate the potential role of CI in economic development, one needs to recognise that the market mechanism in our advanced societies no longer performs its historic function. That function is the crowding out of wasteful users of resources by more efficient competitors. And the reason this process of natural selection malfunctions is because labour costs continue to dominate prices, although labour has ceased to be the critical resource.

Throughout the history of capitalism, better tooling, mechanisation, new energy sources (and so forth) have helped to make the scarce resource of manual labour

more productive. Indeed the extent to which a process fostered this tendency was generally a fair measure of its wealth-creating efficiency, regardless of how that wealth was distributed. Labour-cost dominated pricing was therefore a progressive force towards saving the key limiting resource.

Problems have arisen because a market that gives priority to labour saving is no longer appropriate when demands on other resources are more important to long-term prosperity. Economy of non-renewable resources and preservation of the global environment are more important than labour saving, but at present are insignificant cost elements. In other words, the dominant market no longer optimises true resource economy. Not only are the caring professions (including health and education) crying out for thousands of millions of man-hours, but in most commercial operations also quality and user satisfaction would be greatly enhanced, if they were staffed more generously.

### Labour costs are too high

The weighting of labour in the pricing of goods and services needs to be reduced. Taxing natural resources provides a useful corrective, but would be far more effective within the framework of the labour-cost reductions proposed here. Throughout farming and forestry, the shedding of labour has involved environmentally detrimental practices like the excessive use of fertilisers and pesticides, destruction of hedges, over-drainage and animal feeds that are a health hazard. Fully organic farming is not practicable for most crops, but a balance could be struck at a long-term sustainable level, if only agricultural labour became more affordable.

Similarly, the allegedly unaffordable costs of heat insulation, pollution control and other forms of energy economy are predominantly labour costs, even when they appear under capital equipment costs. Repair-work has largely disappeared, not only in automotive spares where most of us are familiar with it, but in many other industrial products as well. Whole assemblies have to be exchanged when a tiny part wears out. This design practice is driven by the desire to reduce manufacturing and, above all, maintenance labour costs. Building construction is similarly profligate. It is often 'uneconomic', within present cost structures, to repair and convert sound buildings, or to salvage re-usable elements from demolition sites. If labour costs were lower, the practice or design with the lowest labour content would often no longer be the most economic alternative — so other economies would frequently be substituted for redundancies.

### Citizen's Income

It is likely that the provision of CI would increase the viability of cooperatives, as a substantial counterweight to structural unemployment in the traditional manufacturing sector. In the old concept, this would be seen as encouraging inefficiency, but, with a more rational assessment of resource economy, the advantages of quality, variety, material economy and innovation — together with the other advantages which small operations can offer — become practical propositions, and would no longer be shut out by false pricing mechanisms.

Lastly, and perhaps most important, with CI many labour-intensive community services would become cheaper — schools, hospitals, police, libraries and so on. Like a private entrepreneur, the state or municipality anxious to hire an extra teacher or nurse would no longer have to find that portion of their pay which covers their most elementary needs, because it would already be provided through their CI. Although the cost to the community of people on the public sector payroll would be no less than before — on the contrary it might be slightly more — the financial disincentives to work would be diminished.

## Getting from here to there

The switch to CI must be abrupt, otherwise the required coincidence of wage and salary reductions by national agreement with the trade unions could not be achieved.

For illustrative purposes, let us assume a CI of £60 a week, matched by wage reductions of £1.25 per hour and salary reductions of £50 a week, plus the introduction of a statutory minimum wage, which would be lower than anything acceptable without CI. I believe that there are enough forward-looking elements in the trade union movement to clinch such a deal, once they have grasped the benefits to their members in terms of job creation and modest increases in living standards at the lower end.

Of course the CIs would have to be paid for. While much of the cost would be met by elimination of existing benefits — and their costly administration — there would undoubtedly be a need for higher rates of income tax. Some pretty horrifying projections of the level of income tax needed to pay for CI have been published — something like 70% — but under the system proposed here, even allowing for abolition of national insurance contributions, such rates need only apply to top earners, for the following reasons:

- The level of CI assumed is truly basic, not the one-third average earnings assumed before,<sup>1</sup> but still sufficient to achieve CI's key objectives.

- The savings in public sector payroll, as a result of the wage drop, would make a substantial contribution.
- The savings in payroll in the private sector would increase company profits, much of which should be recoverable through appropriate tax changes.

It is easy to see that where firms reduce prices rather than convert all their wage savings into profit, the community and the economy stand to benefit.

Business lobbies and right-wing politicians forever extol the merits of lower wages as a stimulus to economic growth, ignoring the downside of lost purchasing power. CI does lower wage costs to the employers, but it also maintains overall purchasing power. Indeed, by shifting purchasing power towards the lower paid, it adds to the economic stimulus provided.

## Better use of resources

Another outstanding feature of these proposals is that the benefits from CI are not relative but absolute. Most of the economic recovery measures advocated in the UK boil down to different ways of increasing our competitiveness in world markets. It is true that initially a single nation adopting CI would increase its competitive position, but even if all the member states of the European Union — or all the nations of the world — were to follow suit, we would by no means be back where we started. On the contrary, we would all gain, because we would all be making better use of human and natural resources.

*Hans Breitenbach is co-author (with Tom Burden and David Coates) of **Features of a Viable Socialism**, Harvester-Wheatsheaf, 1990. He is Chairman of Yorkshire Regions Fabians and a Fellow of the Institution of Electrical Engineers.*

## Reference

1. Hermione Parker, *Instead of the Dole*, Routledge, 1989, Chapter 9.

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# Excerpts from the National Press

## **Hermione Parker in Parliamentary Brief,<sup>1</sup> Vol. 4. No. 6., May 1996 *A Basic Pension That People Can Live With.***

The main volumes of the report to come out after an independent Committee of Inquiry was set up by the National Association of Pension Funds (NAPF) in 1994 are Volume 1, *The Report of the Retirement Income Inquiry*, and Volume 2, *Analysis of Trends and Options*.<sup>2</sup> The Inquiry's terms of reference were to review present pension arrangements in the UK; to consider the roles of the state, employers and individuals, the suitability of different financing mechanisms, and whether changes should be made to ensure adequate retirement incomes in the long term; and to make recommendations.

The Chairman of the inquiry (Sir John Anson) and its Director (Terri Banks) are former senior civil servants, the twelve other members of the inquiry are a cross section of the great and / or good — from Donald Brydon (Deputy Chief Executive, BZW) to Lady Wilcox (Chairman, National Consumer Council). Volume 1 summarises the issues and recommendations. Volume 2, by Paul Johnson and colleagues at the Institute for Fiscal Studies (IFS), provides much of the detailed information and analysis underlying the report.

It is a report which relies heavily on state-of-the-art micro-simulation techniques, the limitations of which appear to have been passed by. No questions are asked regarding the suitability of the IFS model for cost projections to the year 2050. Yet the report's main recommendation — gradual replacement of the NI basic pension and income support by income-tested *Assured Pensions* — has behavioural implications which the IFS model does not measure. Given that the growth of expenditure on social security since 1979 correlates with the move towards a residual (or means-tested) welfare state — with detrimental effects on work incentives, voluntary savings and family life — these limitations should at least have been mentioned.

At present, income support is withdrawn £ for £ once the pensioner's income is above the statutory limit — hence the pensioner poverty trap. By contrast, the *Assured Pensions* would be withdrawn by "less than £1 for every £1 of other income over the assured level" (p 26). So low-income pensioners could lose up to 99 pence out of each £ of other income, compared with a top rate of income tax of 40%.

At this point the reader is transported gently but firmly — with scant discussion of the alternatives — into a world where one set of rules prevails for well-to-do pensioners (mainly men) and another for poor and nearly-poor pensioners (mainly women). Worse still, in so far as there is any in-depth analysis of the issues, voter preferences, social values and the implications of the proposals for family life are squeezed out by a bottom-line approach

that sees life in terms of money. To be sure of a decent living standard in old age, every man and every woman would need to have been in regular, full-time paid work. The social costs are passed by.

No elderly person need starve, because everyone would be guaranteed the *Assured Pension (AP)* at an adequate level. But how much is "adequate"? Again there is scant discussion. According to a report prepared by the Family Budget Unit for Age Concern, single pensioners need roughly £135-£150 a week (including housing costs) to be able to enjoy a modest-but-adequate old age, while pensioner couples need £220-£250. It is worth remembering that some people are 'pensioners' for thirty years or more.

*Pensions 2000* has costings for pensions of between £65 and £120 a week, but proposals by the National Pensioners Convention and others to pay for higher (non means-tested) basic pensions by withdrawing pension tax reliefs are rejected out of hand, on the grounds that this would "imply higher taxation" and "most of the money would go to people with incomes above the income support level" (p 25).

Such arguments miss the point. Everbody knows that higher pensions have to be paid for. At issue is who should pay for them: those at the top of the income distribution or those at the bottom? My vote goes for the first option. Lifting low income pensioners off income support is not something to be frowned upon. It is what those affected most desire, because £65 *as of right* is worth more than £65 after a test of need. It is also a precondition for restoration of the savings motive.

Although the *Assured Pension* is made to sound attractive, effectively it is a combination of existing NI basic pension and a new version of income support. The latter would be uprated in line with earnings instead of prices (an important advance) and would be subject to a test of income instead of capital and income (another advance) but the NI element would fade away by upratings in line with prices instead of incomes.

So the scale of the pensioner poverty trap would grow and the savings motive would weaken. Hence the report's further recommendation that individuals and their employers *should be required* to make minimum contributions to an appropriate funded pension scheme (a tax increase in all but name).

When will the great and the good understand the strength of opinion in favour of a basic pension that is adequate and cannot be taken away? That is what made the Beveridge Report so popular and human nature has not changed. These are questions which groups like Citizen's Income Trust are trying to address. Their preferred solution is a universal basic pension (enough to live on but not enough to deter voluntary savings), based on (say) 40 years residence in the United Kingdom, and withdrawn through an integrated income tax. This resembles the systems in Canada, Denmark, Japan, the Netherlands and Sweden. In all these countries except Japan women have an autonomous right to the flat-rate pension and Japan may adopt this approach in future.

Women, says the report, "are potentially disadvantaged in those countries ... where first tier pensions are closely related to contributions and earnings" (p 3). For women

read those women (and men) who put their families and local communities above their careers. On what grounds should unpaid work as a parent or carer justify second class status in old age? The social costs may not show up in the IFS computer, but they are there and we ignore them at our peril.

## References

1. 16-18 Strutton Ground, London SW1P 2HP
2. *Pensions: 2000 and Beyond*, Volume 1, The Report of the Retirement Income Inquiry; and Volume 2, Analysis of Trends and Options. For further information see **Books and Papers Received**.

# Taxes, Benefits and Family Life: The Seven Deadly Traps

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## Letter page

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

### From Lord Vinson of Roddam Dene

The following letter was received in response to the article **Earnings Top-Up or Basic Income and a Minimum Wage**, by *Hermione Parker and Holly Sutherland in CI Bulletin 21*:

It seems to me that the whole attraction of Basic Income is that it enables (or could enable) people to price themselves back into work. A minimum wage set at £4 an hour would bring back just the sort of rigidities in the labour market one hopes that BI would help remove.

Apart from that, the minimum wage never reflects differences in employment conditions. If £4 an hour, say, for a 40 hour week is paid as a minimum wage to employee A, giving an income of £160 per week, what minimum wage should be paid to an employee doing the same work but in a rent-free, tied cottage? Would it not be reasonable to pay them £3.50 an hour due to the benefit in kind?

Should all baby-sitters be paid £4 an hour? Supposing they are collected and delivered to their home, given a drink and a free meal, should they still be paid £4 an hour, or would not the rate best be left to a sensible deal between the hirer and the hired?

My interest in Basic Income is as a way of reviving the informal market, which has been driven underground. Millions of jobs exist through the natural inter-change of labour from one citizen to another — not necessarily through the medium of formal employment. The less formal economies, like Hong Kong, have little unemployment and their GNP is in excess of ours.

We have made the white economy black and unless we can remove from it — as Citizen's Income removes from it — the formalities and rigidities of the modern state, we shall never get the economy singing again, as it used to, at a community level.

Every good wish,

Nigel Vinson  
House of Lords  
London SW1



# FUTURE OF THE BULLETIN

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

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

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

Work is now being undertaken to widen the scope of the Bulletin. Its circulation to those most concerned with developments in the social policy area is being extended. And 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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