EUROPEAN ISSUE

CITIZEN'S INCOME BULLETIN 23

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The world needs politicians capable of moving past the short term and telling the public what is really happening.

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

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CITIZEN'S INCOME BULLETIN

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CONTENTS

Editorial

Hobson's choice for Britain's voters

Thomas Hobson (1546-1631) lives on in the English language as the liveryman who gave his customers no choice — either they took the nearest horse or they got nothing. In Britain's forthcoming general election voters can expect similar treatment insofar as social security is concerned.

Despite mounting evidence that means-tested welfare on a large scale causes more problems than it solves — on a small scale the reverse is probably true — all Britain's main political parties have it on their agendas. Universal benefits, they say, are too expensive and to prove their point they compare the costs of different welfare systems, using microsimulation models. Certainly the means-tested programmes look more cost-effective in year one, but the figures are unreliable because they go no further than year one, so they exclude the behavioural effects of change.

Social security statistics for Britain since1979 show that the fastest growing programmes are not universal child benefit or even old age pensions, but means-tested Income Support, Family Credit and Housing Benefit. Most at risk of poverty are families with children, young adults, people with disabilities and the elderly. Since the early 1980s non means-tested support for families with children has faded away. At average male manual earnings of £300 a week, a single person in local authority housing has a net income — after income tax, National Insurance contribution, council tax and rent — of about £180 a week. A couple with two children and the same wage has £194 a week — only £14 more.

A Citizen's Income (CI) or Basic Income (BI) would change this. Every man, woman and child would receive the BI and pay tax on all (or almost all) their other income. For the majority, BI would operate like a fixed-amount credit against their income tax, and would replace existing income tax allowances. But for people without any income or with very small incomes — including carers, most children and students — the BIs would be payable automatically in cash.

This edition of the Citizen's Income Bulletin focuses on Europe. In the Netherlands, although BI may never happen, it is widely discussed. In Ireland, BI has been turned down by the Government (for the time being), after a long investigation. In Finland, where unemployment is high, CI is also taken seriously. In Germany BI is discussed, especially as an alternative to *Sozialhilfe* (cf Britain's Income Support), but is sometimes confused with Negative Income Tax. In Britain, despite increasing interest in it, BI is largely ignored by Government and the media, with the result that most people have never heard of it.

Why are the prospects for BI so bad in Britain? The answer has much to do with the forthcoming general election. On 9 November 1995, in an article headed *Think the unthinkable, Mr Smith, The Independent* newspaper put in its oar by including BI among four reform options for an incoming Labour government. As Shadow Secretary of State for Social Security, Chris Smith was said to be examining BI, but was replaced by Harriet Harman who is not reported as doing so. Strong rumours followed that Gordon Brown (Labour's Shadow Chancellor) is being advised (informally) by Professor John Kay — a former Director of the Institute for Fiscal Studies and co-author of *The Reform of Social Security* (IFS, 1985), in which the case *for* a means-tested 'welfare state' was argued in detail.

Could this association explain Gordon Brown's decision to remove child benefit from 16-17 year olds in full-time education? Labour, as Jim Lester points out in this Bulletin, seem to have forgotten that child benefit replaced child tax allowances as well as family allowance. He could have added that at one time child tax allowances were higher for children aged over 16 than for single adults, presumably because of the teenagers' enormous appetites. Yet if Gordon Brown's proposal becomes law, families with 16-17 year olds in full-time education will be taxed on the same basis as non-parents — and they won't get child benefit either.

The Conservatives and the Liberal Democrats have said they will retain child benefit, uprating it in line with prices instead of earnings, which is an underhand way of phasing it out. If National Insurance retirement pension had been indexed to prices since 1948 it would now be about £25 a week instead of £61. Whichever way one looks the outlook for Britain's children could hardly be bleaker.

Perhaps the best news for readers of this Bulletin is the European Commission's decision to finance a feasibility study of a tax-benefit model called EUROMOD, which would cover all 15 Member States and facilitate European-wide analysis of the effects of policy changes. Because users of EUROMOD will have to specify the exact policy changes they have in mind, standard use of terminology will be assisted.

From the papers presented at BIEN's Sixth International Congress in Vienna (**see At Home and Abroad, p 14**), terminology emerges as an important issue. Citizen's Income Trust defines Basic Income as a convertible tax credit, for which the unit of assessment is the individual, and which is withdrawn through an integrated income tax at rates which are either flat-rate or increasing. Just like child benefit! Some of the papers presented in Vienna use the term BI to refer to a Negative Income Tax (NIT). Others use the terms BI and NIT as though they were synonymous. For those living in a country which already has a partial BI (in the form of child benefit) and a work-tested NIT (in the form of Family Credit) this is an issue which we hope will be on the agenda at BIEN's next conference in 1998.

It would be wrong, however, to suppose that tax-benefit models or standardisation of technical terms will get CI onto the statute book. Certainly EUROMOD could help to show the underlying differences between BI, NIT and other CI variants. But to get any form of CI onto any country's statute book will require more than that. The Irish experience has shown that over-reliance on microsimulation analysis results in important issues being left out. At some point voters have to be asked : *What sort of a society do you prefer to live in?*

Citizen's Income Trust regret to announce the resignation, due to ill health, of our Director Richard Clements. A new Director will be appointed soon. Since his appointment in April 1993, Richard Clements has worked unstintingly to promote Citizen's Income in the UK. His departure is much regretted.

Children, families and Citizen's Income

Roger Smith
The Children's Society

In past issues of the CI Bulletin much of the argument has been devoted to studies of the costs and redistributive effects of Basic Income (BI) proposals, using microsimulation models. By contrast this article addresses issues which cannot be quantified, but are at least as important. These include the impact of BI on family life, children and young adults, on social cohesion and on the ethos of society. The effects of child benefit are shown to be of particular relevance, because it resembles a BI for children. If it can be shown that child benefit provides social as well as economic benefits for children, this provides support for the idea of a BI for other members of society as well.

Child benefit has been in place in the United Kingdom for nearly 20 years, having superceded family allowances and child tax allowances in 1979. Since then it has occasionally come under threat, and it has been argued that it was saved from abolition only by the judicious placing of a comma in the Conservative Party's 1987 general election manifesto.

However, apart from some tinkering — with the introduction of a lower rate for second and subsequent children in 1991, and a reduction in its real value — child benefit has remained a cornerstone of social security policy. Roughly £6,000 million annually is spent on child benefit.

It is cheap to administer — only 2% of its budget goes on distribution costs — and an estimated 98% of those entitled to it actually claim it. Because payment is mainly through post office giro books, it is usually collected by mothers. Perhaps because of this, it has been found that child benefit is usually spent on children, whether in the form of clothing or family outings, or the costs of particular activities.

On every occasion when child benefit has been felt to be under threat, many arguments have been advanced by concerned organisations — and also by the mothers who rely on it — as to why it is of particular value, in some ways probably of greater value than its cash worth. Reports suggest that people see it as particularly important for the following reasons:

- It enables families to spread their expenditure. "The money goes into the kitty . . . We use some of the money to buy food, but we can also send the children on holiday with the school."
  (Lynn Collins)

- It is reliable and helps with household budgeting. "There's no way we could afford to feed and clothe our baby without the money from the government."
  (Elaine Bishop)

- Because it is paid as a universal benefit, there is no stigma attached.
  "I don't think it should be means-tested. Once you do that, it becomes humiliating and people start fiddling the system." (Jilly Cooper)

- It is recognised as an investment in future generations.
  "Child benefit will remain the cornerstone of our policy for all families with children. Its value will increase each year in line with prices." (Conservative Party Manifesto, 1992)

- It is important because it expresses a symbolic belief in the worth of all children.
  "As a mother you need to feel you are doing something society is pleased about and that it is giving you something in return for doing it." (Marina Warner)

- Unlike more unreliable forms of income such as means-tested Family Credit and Income Support, it is seen as a particularly important element of family income in times of crisis.
  "The courts have failed to enforce my maintenance order, so child benefit is crucial." (Anne Peterson)

- As a flat-rate benefit, child benefit is worth more to those on low incomes.
  "Child benefit makes a big difference to us, because we are on one income. My husband uses child benefit for bread, vegetables, fruit and the milk bill." (Ruth Marttens)

In a whole variety of ways, child benefit plays an important part in strengthening and supporting family life, and helping with the costs of bringing up children. This in turn means that children are less likely to be seen as a burden or a hindrance.

Child benefit: A model for CI?

While child benefit might be seen as a special case, in some ways it can be argued that many of its attributes would also apply to CI. At the very least, its effective role as a form of social cement appears to represent an unanswerable argument, firstly for retaining it and secondly for strengthening it further.

Debates about child benefit for 16-18 year olds — which the Labour Party is proposing to replace with means-tested educational allowances — should perhaps be considered in this light. A guaranteed income for this age group is a reasonable policy aim, in order to promote a secure basis for the kind of critical choices young people have to make at this stage in their lives.

The question properly to be considered is the mechanism by which this sort of allowance or benefit is made available, rather than whether or not it should be on offer at all. In other words, it seems legitimate to discuss whether an allowance for 16 and 17 year olds should go directly to them, rather than to their parents. On the other hand, it does not seem reasonable to propose withdrawing child benefit from this age group without providing anything by way of an alternative.

Withdrawal of child benefit would significantly undermine the independence and responsibility of many 16 and 17 year olds, while failing to ensure that money was being provided specifically to meet their needs. For many, both they and their parents would in fact lose out.

If child benefit is good for the family and good for children and young people, then would not a Citizen's Income share many of the same attributes? In other words, if a guaranteed income for children can be seen to strengthen family life, cannot the same be said of similar provision for adults?

Citizen's Income would shift the parameters of parental (usually mothers') decisions about whether and when to return to work after having children. For many mothers — and lone mothers in particular — the decision about whether to return to work after having children (if work is available) is not determined by choice or by their own judgements about what is in the children's best interests, but by their need to earn a living and to support their families. A guaranteed income at this stage in the life of a family would certainly cushion the impact of this kind of economic pressure, although it should be recognised that it is unlikely to remove it entirely.

It is likely that CI would bring other benefits as well. First, it is potentially a way of recognising and valuing informal and unpaid care work. Second, like child benefit it would ease household budgeting problems, by providing a guaranteed resource in good times and bad. Third, it would mean that each adult in a family had some disposable income, which would provide some safeguards to weaker family members. Finally, like child benefit, CI would ensure that families do not suffer from feelings of stigma and inferiority, which may well affect their morale and the quality of family life.

These are important attributes which a CI might share with child benefit, and which in my view would lead towards stronger families and a more cohesive society.

Investment in people

The attributes of child benefit can be summarised as contributing effectively to a sense of social cohesion, for it represents a collective and undifferentiated investment in all the nation's children, irrespective of race, class, gender or disability. In its own relatively small way, it symbolises a common belief in the potential of all our children — which perhaps helps to counter the negative attitudes towards young people sometimes in evidence.

Might not a Citizen's Income payable to each member of society mirror these features of child benefit, whilst also contributing to a greater sense of unity and common purpose across all sectors of society?

Roger Smith is Social Policy Manager at the Children's Society, which is a voluntary society of the Church of England and the Chuch in Wales.

Is Basic Income the answer?

Some findings from Ireland

Anne McManus

This article is based on a paper presented by Anne McManus at a Conference held in Dublin Castle between 10th and12th October 1996 (see ***At Home and Abroad****). In it she summarises and explains the conclusions of an Irish Expert Working Group on integration of the tax and social welfare systems.[1] The group was set up in July 1993 "to identify the problems arising from the interaction of the tax and social welfare systems and to identify the steps necessary to achieve greater co-ordination / integration of the two systems, with particular attention to the impact on people's incomes and to the tax code, social welfare system, budgetary and administrative implications."*

*While the Group's terms of reference included integration of tax and social welfare under a number of different criteria, the main objective was to find out how the tax and social welfare systems could be adapted to reduce disincentives to work. Family policies — for example the effects of the tax and social welfare systems on child development, the transition from school to work, incomes during disability, caring and old age — were outside the Group's terms of reference. However, the impact of tax and welfare policies on equality between men and women was recognised . The Group's findings were published in July 1996 (****See Books and Papers received: 'Integrating tax and social welfare'****[2]).*

Since this paper was originally presented at a conference on equal treatment, it focuses mainly on aspects of the Group's work which relate to equality, but some material on other aspects of the Report has been added.

Basic Income (BI)

Since the Expert Working Group's brief referred to both coordination and integration, we looked at a number of aspects of integration, ranging from total merging of the separate tax and welfare systems into a unified tax-transfer system, to retention of the existing separate systems, but with better coordination between them.

The Group began by investigating whether or not there was a simple solution — a single tax-transfer system which would totally replace both the income tax and the social welfare systems. This is not, of course, a new idea — such schemes have been much discussed in economic literature and within many political parties and other groups. A variety of terms have been used to describe such schemes: negative income tax, basic income, citizen's income, social dividend. Some writers see these terms as synonymous — others refer to differences. The Expert Working Group used the term *Basic Income (BI)* to refer to the payment of an unconditional income to all residents, free of tax and independent of labour force status or family circumstances. A Full BI would be enough to replace existing social welfare payments and would also replace existing personal income tax allowances.

Some attention has been paid in Ireland to the idea of a BI in both academic and political circles. Some of our political parties have expressed an interest in it, although most have not elaborated on it in detail or incorporated it firmly into their policies. Only one party (The Workers Party) recommended it to the Commission on Taxation in the 1970s and to the Commission on Social Welfare in the mid-1980s. Both these Commissions rejected the idea, mainly on the basis that the tax rates required to finance an acceptable level of BI were seen as too high. A paper published in 1987 concluded that it would not be possible to fund a BI at the level regarded by the Commission on Social Welfare as being minimally adequate.[3]

After 1987 very little attention was given to the idea of BI until the last couple of years, which have seen debate arising from BI proposals put forward by the Justice Office of the Conference of Religious of Ireland,[4 & 5] as well as publication of BI research commissioned by the Expert Working Group.

BI was addressed by the Group primarily from the perspective of work incentives. However, the idea is also of interest from other perspectives, including family policy and equality between men and women. Unlike conventional social security systems, BI is unconditional. Entitlement is universal and is therefore not linked to labour force participation or payment of social contributions. Nor is it means-tested, so the difficult questions of whether means tests should be based on the individual or on the family/household unit do not arise.

How achievable is BI in the Irish context? In order to answer this, the Group commissioned research on the implications of Full BI. As well as being summarised in the Group's report, the detailed findings were published by the Economic and Social Research Institute (ESRI) in 1994.[6] The Full BI studied was at the rate of IR £60 per week for each adult (in 1993-94). This is roughly the same as the level of long-term unemployment assistance for a single person. A further £17.40 would be paid in respect of each child, again equivalent to existing rates for most cases.

This research bore out Honohan's earlier findings that high tax rates would be needed. A Full BI, at the level of existing social welfare payments, would, if funded through the income tax, require a tax rate of 68% on all other income. The Group concluded that the adverse effects on employment of such a high tax rate would greatly outweigh its potential advantages.

Partial Basic Income

The Group also looked at variants on Partial BI (meaning BI at a lower level of payment). They found that it would be possible, for instance, to finance a Partial BI of £21 a week without any tax rate increase. This is just under one-third of the level of the lowest personal rates of social welfare payment, so a considerable part of the existing systems would need to be retained in order to 'top up' the Partial BI. A higher Partial BI (of £38 per week) could greatly simplify the system, and in particular would remove 'Adult Dependent' Allowances from the Social Welfare Code; however, it would require substantial tax rate increases.

The Group's view of Partial BI was, essentially, that if the rate of BI were high enough to have any substantial impact on simplifying the tax/transfer system, it would require very high levels of taxation. For these reasons the Group rejected Partial BI in the short to medium term but suggested the option could be reviewed in the future.

Better coordination of tax and welfare

Having ruled out total integration, the Group turned to better coordination of the tax and social welfare systems, including: a more integrated approach to child income support, closer integration of financing mechanisms, and more consistency between the tax and social welfare systems in the unit of assessment and the period of assessment.

Child income support

The Group identified child income support as a priority for reform. Currently, the State provides financial support for children through four different mechanisms in the tax and social welfare codes. It is recognised that this can give rise to disincentives and poverty traps (see, for example, the National Economic and Social Council report: *A Strategy for the Nineties*[7]). The first reform option considered by the Group was a Basic Income for children. While the Group found this to be a useful reference point with which other options could be compared, it was rejected on the basis that it would significantly increase public expenditure and income taxation, and that many of the benefits would accrue to people on higher earnings rather than those for whom employment incentives are an issue.

The Group put forward three possible reforms, for consideration by Government. These were:

- *Integrated Child Benefit:* essentially a taxable BI for children
- *Child Benefit Supplement:* which would be means-tested
- *Reformed Family Income Supplement:* similar to Family Credit in the UK

Taxation

In relation to income taxation, the Group stressed the need for tax policies at the lower end of the income distribution which would focus on increasing income tax allowances.

Integration of payroll charges

The existence of separate income tax and social insurance contribution systems, each with different rates, conditions and thresholds, leads to a complex system of deductions. The Group reached a consensus in the context of integration that the contributory principle should be retained in relation to social insurance. However, they did not reach agreement on the retention of the employee contribution. Some of the Group recommended that the employee contribution should be retained. Others recommended that the contributory system be retained on the basis of an employer contribution only — the employee contribution would be phased out as resources permit, by an increase in the Exchequer share of the Social Insurance Fund. The Group agreed a number of smaller recommendations aimed at simplifying the system.

Unit of assessment

Many inconsistencies exist at present in the treatment of different units in the Irish tax and social welfare systems. The tax system allows married (but not unmarried) couples to aggregate their incomes and allowances, but also gives the option of individual assessment. By contrast, the social welfare system treats cohabiting couples the same as married couples, and in certain circumstances a wider household unit is used.

The Group noted that any proposals for reform had to take account of the context of changing family structures, increased independence of women and legal obligations for equal treatment — whilst also recognising that the Irish constitution places particular importance on the family as the "natural primary and fundamental unit group of society". Any changes would also need to take account of other factors, such as income sharing, needs and economies of scale, incentives, consistency, impact on poverty and costs.

Income sharing

The rationale for assessing spouses' incomes jointly (whether for tax or for means tests) is the assumption that it is generally shared. Indeed, there is a legal obligation of financial support to one's spouse and dependent children. This view was expressed by the Commission on Taxation,[8] which stated that:

> "The tax unit should be defined in a way which reflects the manner in which society organises itself for social and economic purposes. It should be recognised that people pool their resources and assume esponsibility for the care and maintenance of others" (page 232).

Research in Ireland on behalf of the Combat Poverty Agency [9] suggests that in the vast majority of households some form of income sharing can be found, although the amounts shared differ between households. The study found no significant amount of hidden poverty arising from maldistribution of income within households.

Individual tax and benefit units

There is clearly some trade-off between demands for individualisation on the one hand and the objective of targeting social security payments on those most in need on the other. Some members of the Expert Working Group put forward proposals for individual treatment in both the tax and social welfare systems. In this proposal, everyone would be able to choose between individual treatment or treatment as one of a couple:

- Contributory benefits would continue to be paid on the basis of individual contribution records. Benefits would consist of the personal rate of payment, with no adult dependent allowances.

- Means-tested benefit would be extended to everyone, subject to availability for work for those of working age. The work test would not apply to the sick and disabled, carers of children under 15, and carers of the disabled and elderly. Assessment would be on the basis of individual income; no account would be taken of the income of other family members.

- If a married person opted to claim social assistance, his or her spouse would be taxed as a single person.

The Group found that this scheme would have a number of disadvantages. It would be extremely costly, adding perhaps 11% - 15% to the social welfare budget. Bearing in mind that in most households there is adequate income sharing, it would not be well targeted. It would redistribute income from single people and two-earner couples to single-earner married couples. Many of the gainers would be on middle and high incomes. And it could have undesirable social effects, for instance it might encourage transfer of assets from non-earning to earning spouses — thus reducing the non-earner's own economic independence — in order to receive a small 'independent' income from the State.

Other recommendations

The Group also made a number of more technical recommendations, relating to simplification/ coordination of the two systems.

Reaction to the Report

The Report has been welcomed by the Government. In particular, the principles underlying the Group's work have been widely quoted. These principles are:

- There must be a reward for working
- The transition to work should be facilitated
- Tax on the lower paid should be reduced
- The tax and social welfare systems should be simpler
- Tax and social welfare reforms should be coordinated

The Group's work on child income support has been referred to by a number of agencies, included the recently published Interim Report of the Commission on the Family[10] and a report by the National Economic and Social Council.[11] However, amongst the wider public there has been little reaction to the Group's Report — which may be due to the complexity of the subject matter.

The main criticism of the Report has come from the director of the Conference of Religious of Ireland (CORI).[12] This states that the principles underlying the Group's deliberations were too narrow, that the Group gave insufficient weight to distributional issues, and that it gave insufficient consideration to the CORI Basic Income proposals. CORI is continuing to press for a Basic Income scheme.

Anne McManus acted as Secretary to the Expert Working Group, which was set up by the Minister of State at the Department of Social Welfare, Joan Burton T.D., in 1993. While every effort has been made to present the conclusions of the Group accurately, this article is the responsibility of the author and is not attributable to Group members.

Notes and references

1 Anne McManus, *Is Basic Income the Answer? Some conclusions from an Irish Expert Working Group on Integrating the Tax and Social Welfare Systems,* Conference *BEYOND EQUAL TREATMENT: Social Security in a Changing Europe,* Dublin Castle, Dublin, Ireland, 10th-12th October 1996.

2 Report of the Expert Working Group on the Integration of the Tax and Social Welfare Systems, *Integrating Tax and Social Welfare,* Pn 2755, 1996, price £12, Dublin Stationery Office, Government Publications, Postal Trade Section, 4 - 5 Harcourt Road, Dublin 2, Tel 01 661 3111 - ext 4040/4045; Fax 01 4752760].

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6 T. Callan, C. O' Donoghue and C. O' Neill, *Analysis of Basic Income Schemes for Ireland,* ESRI Policy Research Series, Paper No. 21, 1994 [ESRI, 4 Burlington Road, Dublin 4].

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10 Commission on the Family, *Strengthening Families for Life: Interim Report to the Minister for Social Welfare,* November 1996 [Commission on the Family, Colbert House, Con Colbert Road, Kilmainham, Dublin 8].

11 National Economic and Social Council (NESC), *Strategy into the 21st Century: Conclusions and recommendations,* Report No. 98, October 1996 [address as in note 7].

12 S. Healy, *Response to the Expert Group on the Integration of the Tax and Social Welfare Systems,* paper presented to the Foundation for Fiscal Studies Seminar in the Economic and Social Research Institute, 26 July 1996.

Basic Income plus . . . Jim Lester MP talks to Susan Raven

I'm a supporter of Basic Income — I used to listen to Brandon Rhys Williams when he spoke in the House of Commons. I can't see any other way of solving the grey areas of the poverty and other traps. For the poor to seek income in a sensible way without being penalised is too difficult at present.

My party—the Conservative party—stands for evolution. We are evolving very slowly towards indirect taxation — and it's one way to handle the variety of jobs people do. The whole drift of taxation policy since the 1980s has been to raise indirect taxation rather than income tax. I can understand in today's economic atmosphere that a tax on spending seems more sensible than a tax on income. But people are avoiding VAT — indirect taxes are not producing the yield they should. So there are limits to the policy of increasing indirect taxation.

Present policy is also to reduce marginal income tax rates and Government spending. But I believe, as I think the Chancellor of the Exchequer and the Prime Minister also believe, that the state sector should be adequately funded. I believe in a first-class state education system and a well-funded health service. I do not believe in the minimalist state. It may be that the best solution is to transfer the cost of education and so on to individuals. But that way people won't pay out less — they could find themselves paying more, with a lower level of provision for the lower income groups.

Frank Field's compulsory savings plan would take 10% of people's income in order to finance their requirements in old age. I myself would prefer individuals to make their own savings, rather than suffer compulsory confiscation of their money and have it invested according to a rigid formula.

But in the end what will decide the matter is the impact of information technology, and the changing pattern of work. I foresee a future when people will have to take two or three jobs — indeed this is already happening — and the system would work much better if supported by a Basic Income than by the current system of means-tested benefits.

Single mothers are much better off not looking at four walls of a room, for at least part of their time. And that's just as true of married men! But we shouldn't make generalisations. The great virtue of Basic Income by comparison with the existing system is that it would encourage flexibility.

I've been trying to persuade the Chancellor to scrap the married couple's income tax allowance, and instead allow the personal income tax allowance to be switched between husband and wife. The principle of transferring basic tax relief is one we should encourage. But for people on low incomes a universal BI would be better still, because there will always be some people who are too poor to be able to use their tax allowances.

I've always been very uncomfortable with workfare. People imagine, in a rather generalised way, that all you need do is give people a wheelbarrow. But long-term unemployment affects a vast range of people, and matching them to work opportunities is not simple. Job opportunities are never static, they are constantly changing. The biggest problem is giving the long-term unemployed motivation. I believe in employment subsidies to the equivalent of benefit. But the danger with all such schemes is that they can be abused unless there are adequate safeguards.

I've fought for child benefit through thick and thin. If some parents want to give it away there's nothing to stop them — but they don't ! I think child benefit is a first-class benefit, and I don't like Labour tinkering with it for 16- and 17-year-olds. When child benefit was introduced it replaced child tax allowances as well as family allowance — turning them into a Basic Income for children. Labour's proposal would leave most school students with nothing.

Over the 25 years I've been a Member of Parliament I've found that my constituents like the tax system to be fair. That's why they objected to the poll tax. People don't seek to avoid council tax the way they used to avoid poll tax, which they thought unfair. Everyone was looking for loopholes.

The hardest thing, as I often say to the Chancellor, is to help people whose pensions are too small for them to pay tax, so tax cuts don't help them. One solution would be to give pensioners a realistic Christmas bonus.

I also have heretical views on the property business. I believe property is an asset whose value can and should be used if you go into full-time care. Why should a home be different from cash in the bank? Many people don't expect to inherit anything. They want their parents to enjoy what they have, not scrimp and save to hand it on.

Sickness and invalidity benefits used to be abused, because doctors signed the forms too readily when faced with desperate patients . In places like Liverpool doing that held society together. Bending the rules gave families a 'BI' on which to live.

Economic pressures have led to increasing interest in Basic Income in many countries. As the millenium approaches, the twin pressures of social security expenditure and labour market change will make Citizen's Income something that has to be considered. But we're in uncharted waters. All we know for certain is that governments cannot afford ever-increasing social security benefits — and it's the means-tested benefits that are increasing fastest. Tony Barber's 1972 Tax Credit scheme was a partial Basic Income. If Ted Heath hadn't lost the 1974 General Election, the scheme would probably have gone ahead and unemployed people would now be able to take any jobs available without losing benefit or breaking the law.

Pressurising people to look for jobs — that's fine if it's based on a BI scheme. But I just don't know how we get from here to there. Economic realities tend to be ahead of politicians on these issues. I can see a time when Basic Income will become the only possible option. But it's very difficult to proselytise. When I talk to my constituents about it and ask them what they think, they tell me I'm the one who should be doing the thinking!

I'm constantly amazed at the relevance of the research done at the London School of Economics and Cambridge University (among others). The trouble is that half the time they don't tell anyone about it. Nor do the media.

I've got a lot of time for Peter Lilley. He's actually been chipping away at the problems, and I freely admit he's done a good job at the Department of Social Security. The fact that he has managed to contain the social security budget, and improve its administration, means that other schemes could be run on his computer programmes.

I used to get letters from people whose husbands were in good jobs — yet they couldn't make ends meet because of the interest rate on their mortgages. For the lower paid, a straight £50-£100 a month extra, as a result of lower interest rates, would be even better than a tax cut.

To say that everyone wants tax cuts is a sweeping generalisation. The 18-25 year olds may want them, but once people start raising their families most of them put education first — and a cut in their mortgage interest.

Sir Jim Lester has been Conservative Member of Parliament for Broxtowe in Nottinghamshire since 1974. From 1979-81 he was a Minister at the Department of Employment. He has been a member of the Foreign Affairs Select Committee since 1982. He is also a trustee of the Family Budget Unit.

> *A Basic Income Guarantee that reached out to all the citizens of the Community would . . . give the ideal of Union a real personal significance, because it would become a commitment and a privilege, expressible in tangible form.*
>
> Brandon Rhys Williams in *Stepping Stones to Independence*, Aberdeen University Press, 1989, page 53.

Building blocks for a new society

Why Citizen's Income should be combined with a Citizen's Wage

Jan Otto Andersson

*Scandinavians were introduced to Citizen's Income (CI) in 1978, through the Danish best-seller **Oprør fra Midten**, by Neils Meyer, Helveg Petersen and Villy Sorensen.[1] An English version of this book, entitled **Revolt from the Centre,** followed in 1981.[2] In both editions the authors propose a universal Citizen's Wage (at a level sufficient to cover basic living costs), entitlement to which would require a short period of national social service. Since then, the term Citizen's Wage (CW) has been widely taken to be synonymous with Citizen's Income (CI), despite the fact that most CI schemes do not have a work test nor require a period of social service. In the resulting confusion, it is easy to ridicule the idea of a wage paid to everybody whether or not they contribute anything in return. In this article Jan Otto Andersson clarifies the argument and carries the debate forward by suggesting a two-tier approach consisting of a universal, partial CI (not enough to live on) plus a Citizen's Wage.[3]*

My vision of a future society is one in which a substantial part of the National Income would be distributed through unconditional CIs and another, equally important part would be used for a Citizen's Wage (CW). The difference between my CI and the Citizen's Wage is that the former would be paid to all legal residents, whereas the latter would be restricted to those participating in activities which society wants to encourage. Through the CIs society would enhance the real freedom of its members. Through the CW it would encourage activities deemed advantageous for society as a whole. In some ways the CW resembles Tony Atkinson's proposal for a *Participation Income* [4] — the difference is that with my scheme even those citizens who do not qualify for the CW receive a partial CI.

The CW would resemble a scholarship rather than an ordinary wage. People would apply for it through specified authorities; moreover the CW (unlike the CI) would count as part of taxable income and would entitle its recipients to old age, sickness and unemployment benefits.

By introducing a CW alongside a partial CI several goals could be pursued:

- It would be possible to create and expand a 'third' sector of the economy, alongside the state and market sectors. This new sector would include activities which are socially or ecologically valuable, but are poorly suited to administration by the state or by market forces. For example, work for voluntary associations, culture and sports, social and local activities, solidarity and environmental work.

- CW would give everyone a chance to do something that is personally rewarding and socially acceptable. Also, insofar as it attracted people who would otherwise have been in ordinary waged work, it would help others to find jobs in the private and public sectors.

- By combining CW with unconditional BI, a person would be able to earn enough to escape dependence on means-tested benefits.

- The existence of CWs would provide a focus for political discussion on how best to utilise human resources in a free society. The allocation of the CWs to different activities, the CW amounts and the conditions attached to them would be of interest to all citizens. The old debate of public *versus* private would be enriched by this third possibility.

A CI+CW scheme would combine the gains sought by libertarians with a more communitarian approach — encouraging individuals to be active and responsible citizens. Through this combination of instruments, society would be better able to find the right balance between individual freedom and collective needs.

Citizen's Income on its own is not feasible

There is a dilemma inherent in all CI schemes which makes CI difficult to implement, even if a majority were to support the idea in principle.

If you strive for a CI amount that is high enough to avoid the need for social insurance and means-tested benefits, you encourage free-riding. People might choose a socially irresponsible way of life, which they could afford thanks to the high CI. On the other hand if, in order to avoid such behaviour, you settle for a low CI, you risk having to supplement it with social insurance and means-tested schemes.

There is probably no solution to this dilemma within a pure CI framework. No matter how much its proponents try to find the right balance between minimal conditionality on the one hand and responsible life-style choices on the other, they are unlikely to succeed. For any conceivable BI amount most voters would reject the proposal.

In Finland the political parties which are BI's most committed supporters are the Left-Wing Alliance (to the left of the Social Democrats), the Green League, the youth organisation of the Centre Party (agrarians) and the Party of the Young Finns (right-wing liberals). However, reconciling the views of the Young Finns and the Left-Wing Alliance is virtually inconceivable. The former want to rationalise and cut down the existing welfare system, while the latter would like to develop a CI in accordance with the Nordic welfare state model.

The problems associated with any particular CI scheme are so difficult that it would probably be politically impossible to implement it, without connecting it firmly to a broader concept which takes account of these dilemmas. A combination of a Citizen's Wage and a partial CI could be the basis for compromise. A relatively low CI could achieve some of the advantages associated with full CI. A flexible system of CWs could achieve much of the other advantages looked for.

Why real-libertarianism is not enough

The most consistent argument for an unconditional CI is provided in terms of "real-libertarianism", as promulgated by Philippe van Parijs in his book *Real Freedom for All.* [5] Van Parijs and Robert van der Veen have made particularly valuable contributions to the CI debate. They maintain that a just society is one which guarantees each person the greatest possible opportunity to do whatever he or she wishes. They argue that, in order to make such a society a reality, a CI should be introduced and set at the highest sustainable level.

Although I find this real-libertarian argument valuable, I feel that the concept of real freedom used by Van Parijs is too narrow, and that his argument does not stand up to the criticism that focusing on individual rights may disregard the needs of society as a whole.

Formal freedom, even when combined with a substantial unconditional income, may not assure real freedom. If we use Amartya Sen's notion of *capability to be and to do what you want to be or to do* as a synonym for real freedom, one important aspect is the ability to have self-esteem and to be recognised as a valuable member of society. A CI would promote this in two ways. The fact that you have the right to receive an unconditional income can be interpreted as a recognition of your value by the rest of society. An unconditional income also facilitates your participation in activities that give you social recognition. However, if you receive an unconditional income like everybody else, but are not compensated in any noticeable way for the activities you pursue, you may still feel useless and excluded.

Some critics imply that BI would leave the unemployed isolated and deprive them of their right to work: *"We give you this BI, so that you can survive, but we have no need for you".* This argument is particularly common among social democrats, who tend to see BI proposals as giving in to mass unemployment. The same argument was forcefully put by Robert Kennedy, who opposed guaranteed income in the United States because "whatever good it might do, (it) simply cannot provide the sense of self-sufficiency, of participation in the life of the community, that is essential for citizens of a democracy". The solution, said Kennedy, is "dignified employment at decent pay, the kind of employment that lets a man say to his community, to his family, to his country, and most important to himself: 'I helped to build this country. I am a participant in its great public ventures' ".[6]

Whilst recognising the validity of real-freedom-for-all as a fundamental value, two other values — democratic communities and sustainable development — are equally important, and cannot be derived from the notion of real-freedom-for-all.[7]

If we focus too much on real freedom or on the capabilities of individuals, we risk downgrading the communities which give those individuals their identity, tastes, desires and beliefs. It is not possible to identify the institutions necessary for a good society simply by focusing on what would be good from the point of view of existing individuals, because the latter are products of the society they live in. If we value democratic communities and sustainable development, we need to encourage those activities and life-styles which promote them. It is unlikely that maximising the unconditional grant (or CI) would have this effect. It would be better to use part of the grant to induce those activities and life-styles which are deemed to be democratic as well as socially and ecologically sustainable. From a community point of view a CI *plus* CW scheme is more acceptable than CI on its own.

CI, CW and the economy

The epoch-making fact that only a small fraction of the population now need to be in paid work in order to provide society with its necessities has radically altered traditional economic logic. We are forever having to invent new ways of finding suitable tasks and incomes for everybody.

What is happening is that small differences in 'productivity' — or 'quality' — show up as large differences in market valuations. When highly skilled persons compete, but only a few of them are needed to satisfy consumer demand, the difference between success and failure becomes very narrow. Small advantages in know-how, public relations or some other elusive factor determine the prosperity of individuals and firms, people and localities. As in professional sport the winners take all. Incomes diverge and without an extensive network of social transfers the gap between rich and poor widens unacceptably.

In Scandinavia until the 1990s the continuous expansion of the public sector (education, health care and social services) provided people — especially women — with good job opportunities. A growing share of increasing industrial productivity was transformed into public services. When this absorption-mechanism came to an end, even the 'Nordic models' succumbed to mass unemployment. High unemployment is undermining the financial viability of the welfare state, the dualisation of society into 'workers' and 'non-workers' is becoming accepted as a matter of fact, and it may be impossible to recreate the dynamics of the old Nordic models.

But it is not impossible to create a new system, based on a new logic, through which an increasing proportion of the population is self-employed in activities that are subsidised by the most successful. For many people quite a low CI may be sufficient to support an otherwise unrewarding activity. For others the combination of a low CI plus a modest CW could make life meaningful for themselves and for the communities in which they live.

The gradual growth of a third sector in our economies— a sector with a logic of its own — could in due course transform our societies.

Jan Otto Andersson is an economist, based at Åbo Akademi University in Finland.

Notes and references

1 Niels Meyer, Helveg Petersen, Villy Sorensen, *Oprør fra Midten,* Gyldendalske Boghandel, Nordisk Vorlag A.S., Copenhagen, 1978.

2 Niels Meyer, Helveg Petersen, Villy Sorensen, *Revolt from the Centre,* Marion Boyars, London, 1981.

3 For an explanation of the English terminology, see *BI for Intermediates,* Hermione Parker and Susan Raven, Citizen's Income Bulletin No 22, July 1996.

4 A.B. Atkinson, *Incomes and the Welfare State,* Cambridge University Press, 1995, Chapter 15.

5 Philippe Van Parijs, *Real Freedom for All. What (if anything) can justify capitalism?* Clarendon Press, Oxford, 1995.

6 Michael J. Sandel, *The Politics of Community: Robert F. Kennedy versus Ronald Reagan,* in *The Responsive Community,* Vol. 6, Issue 2, Spring 1996.

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Basic Income in the Netherlands ?

Robert J. van der Veen

*Of all the member states of the European Union, it is in the Netherlands that **Basisinkomen** / Basic Income (BI) has aroused most interest. This article summarises and updates a report written for BIEN 's Tenth Anniversary Congress in Vienna, 12-14 September 1996. The original report is available through BIEN or from its author, Department of Political Science, University of Amsterdam, Oudezijds Achterburgwal 237, 1012 DL Amsterdam, tel: 31-20-5254783, fax: 31-20-5252086. An earlier survey of BI developments in the Netherlands between 1992 and 1994, written by Saar Boerlage, is also available from BIEN.*

1994-95: High hopes

In September 1994, after four months of negotiation, a social-liberal coalition government took office in the Netherlands, consisting of the liberal party (VVD), the social democratic party (PvdA) to which Prime Minister Wim Kok belongs, and the smaller left-liberal party (D66) wedged firmly in between. The VVD was especially instrumental in forging this coalition, which removed the Christian Democrats from their habitual place at the centre of power in Holland.

The coalition was formed on a compromise platform of drastic cuts in government expenditure, priority for satisfying the criteria for membership of the European Monetary Union (EMU), measures to boost labour market participation, and a much-publicised commitment to discuss the future of Holland's social security system during the summer of 1996.

During an interview in December 1994, Hans Wijers, Minister of Economic Affairs, said he believed that "we are inevitably moving towards something like a Basic Income", and that BI is a rational way of combining the dynamism and flexibility of the labour market with the kind of minimum income security now considered a sign of civilised society by many in the Netherlands. Even though Wijers later wisely declined to elaborate on these comments, they sparked off a media debate during the first half of 1995, in which another prominent member of the coalition — Gerrit Zalm, Minister of Finance and former Director of the Central Planning Bureau — confirmed his sympathy for BI as a low-cost way of overhauling the Dutch social security system.

To be sure, opponents of BI within the coalition were quick to register their disagreement. Minister of Social Affairs and Employment Ad Melkert wrote: "The freedom that BI seems to offer amounts to a definitive separation of outsiders from insiders on the labour market." To which Prime Minister Kok replied that BI could not be ruled out and was to be seen as one of several options.

Three objectives, three options

The ensuing debate crystallised into a rough consensus on the probable shape of the 1996 agenda. Any viable system of social security would have to combine the following:

- Increased participation of the lower-paid.
- Compatibility with the growing variety of employment modes, especially short-term labour contracts.
- Poverty prevention through a guaranteed social minimum for the unemployed.

The three main policy options were seen to be:

Option 1: A refurbished version of the present social security system - leaner on grants, meaner on work requirements and more generous on job subsidies, but holding on to the existing structure of universal benefits (the value of which is linked to Holland's national minimum wage) and collective insurance for workers.

Option 2: A "mini-system" consisting of a uniform means-tested safety net at a sharply reduced social minimum, and privatisation of collective worker insurance schemes.

Option 3: Gradual build-up of a BI for all adults, to reach 50% of the social minimum for families (Dfl 960 / £349 per month in 1996), plus a gradual phasing out of the minimum wage. This BI would need to be supplemented by other benefits, to safeguard the social minimum for certain groups, e.g. single old-age pensioners. The BI and any remaining social security benefits would be indexed to per capita income instead of the minimum wage.[1]

By early 1995, BI along those lines seemed to stand a good chance of being taken seriously — provided its high costs were mitigated by being introduced gradually.

No doubt encouraged by the statements of Minister Wijers in March 1995, D66 held a conference on the 'feasibility and desirability of BI', which showed the grass roots membership relatively in favour of BI while the parliamentary party thought it too costly. During the conference, Wijers firmly restated his preference for BI, adding however that it could only be introduced as part of a long-term process during which the Dutch labour force would have to become more entrepreneurial and shed its culture of educating workers to become life-time employees. Unlike the present system, he said, BI has the potential to encourage creativity (see quote on page 12).

1995-96: Anticlimax

By autumn 1995 it became clear that the Dutch government had backed off its promise of a fundamental debate on social security during the summer of 1996. In retrospect it seems to have settled for Option 1 — a streamlined version of the existing system with the emphasis on job subsidies rather than people subsidies — well in advance.

This can be read into the offical note on employment and social policy (*Sociale Nota 1996)*, which included aptly titled chapters like *'Work, Work, Work'*, *'Searching for Employment'*, and *'A Working Social Security'*. The coalition's battle cry became *'Werk, werk en nog eens werk'*[2] and Minister Melkert became the champion of job subsidies, including an elaborate plan to create 40,000 public sector jobs for the long-term unemployed (at an estimated cost of Dfl 1.6 billion, or £600 million. Even Melkert admits that such schemes are costly and hard to implement, yet so far the public reponse has been mildly favourable.

> *We should try and see how we can use ... Basic Income to promote people's creativity. The current system does not do that. On the contrary, social assistance benefits tend to put a brake on creativity.*
>
> Hans Wijers, Minister of Economic Affairs, 1995

Other parts of the social security system have either been down-scaled, by building in additional means-testing provisions for widows and next of kin, or are being scrutinised for further cost-cutting possibilities and increased work incentives. All in all it can hardly be denied that government is engaged in an extensive reconstruction job on the existing system, and is wasting little time about it. Two recent signs of political adjustment are that Frank de Grave, the newly appointed (Liberal) Under Secretary of State for Social Affairs, recently announced he was prepared to relinquish the idea of a 'mini-system' (Option 2 above). Also, in March 1996 the annual party conference of D66 withdrew much of its support for BI, retaining only the promise not to reject it for good — which is reminiscent of the 1994 PvdA party's election stance of keeping the BI option open. Exit therefore, for the time being, Option 3.

In sum, the likely removal of the grand public debate on social policy together with the government's sudden legislative activism seem to have reduced BI's high hopes of figuring prominently on the political agenda over the next few years. This may, however, be a blessing in disguise. For the indications are that the Dutch electorate still clings to the existing social security system — and the paid work ethic. A public opinion survey conducted by the Social and Cultural Planning Bureau in 1993 showed that 41% of the Dutch population would support a mini system resembling Option 2, only 19% would support a partial BI along the lines of the proposals of the Netherlands Scientific Council for Government Policy in 1985,[3] while no less than 59% would favour workfare.[4]

Assuming that social policy in the Netherlands does not move too rapidly in the direction of an austere mini-system — of which there is little sign at present — then the prospects for BI might be better than if the issue were decided upon, once and for all, at the 1998 general election.

The Greens and the Trade Unions

For the non-governmental left (the Green party — GroenLinks — and the Trade Unions), the years 1994-95 were marked by avoidance of media confrontation between 'pure' models, alongside quiet development of proposals which could be seen as first steps towards a genuine BI.

The Green Party. As part of its platform for the 1994 election, GroenLinks had already announced a plan to turn the personal income tax allowance into a small, refundable tax credit (or BI) worth Dfl 280 / £104 a month for every adult. In November 1995, its Executive Committee decided to call this allowance *voetinkomen* (*foot income*) and to raise the amount to Dfl 500 / £185 a month — financed partly out of environmental taxes. In 1996, at its June Congress, it proposed raising the BI amount by another Dfl 100 /£37 a month — to about 45% of Holland's guaranteed minimum income (cf UK income support) for a single person.

The Greens seem undecided whether to proceed along the route of gradual introduction of Full BI at the social minimum level, or stop at an updated version of the plan put forward by the Netherlands Scientific Council for Government Policy / WWR in 1985.[3] This now famous proposal, which was summarily rejected at the time, would deliberately fix BI at a low level and supplement it with work-conditional benefits — up to a social minimum. The WRR partial BI also resembles current Green plans by stressing the need for alternative tax bases, notably production or eco-taxes.

The Trade Unions. The union approach to BI has always been concerned with participation. In a discussion paper launched at the end of 1995, the Trade Union Federation FNV criticised the then government's performance on social policy and proposed a new basic benefit (*basisuitkering*) in the form of a tax allowance which would convert automatically into a cash credit for those without the income to set against it. It would start by replacing existing income tax allowances and then be gradually increased until it reached 50% of the national minimum wage (currently Dfl 960 / £350 a month) by the year 2010. Like BI, Basic Benefit would be an individualised entitlement and the amount payable would be unrelated to the amount earned. Unlike BI, however, it would be restricted to people who either had a job, were actively seeking paid work, or were engaged in caring work within the family. The Basic Benefit (BB) plan was favourably reviewed by the Central Planning Bureau, which praised its effects in creating jobs in the lower segments of the labour market.

In trade union circles, the plan may well represent a workable compromise between longstanding opponents and advocates of pure BI. British readers should notice that BB closely resembles the proposal for a *participation income* advocated in 1992 by UK economist Tony Atkinson.

Seen from a strategic perspective, such proposals may constitute a different route to a Full BI. Instead of starting with a small unconditional income, which is then raised to cover basic needs, BB provides a BI sufficient to cover basic needs immediately, but makes it subject to that most entrenched of all conditions — *willingness to work.* At present, the FNV is involved in a major internal reorganisation, merging four or five of its largest market sector unions — possibly including the Voedingsbond, which is a time-honoured proponent of BI. It will be interesting to see whether FNV's innovatory approach in promoting BB will survive these changes.

Pragmatism plus experiment

Despite continuing debate about the moral desirability of unconditional BIs, discussion in the Netherlands since 1994 has been largely pragmatic, with a focus on empirical questions like the political feasibility of introducing *particular* BI schemes (of which there are many) and the time span needed to do so.

The new wave of pragmatism can be illustrated by reference to the dilemma of financial cost versus social protection. According to leading opponents — like Minister Melkert — a partial BI would offer insufficient protection, while a full BI would be prohibitively expensive and poorly targeted. The response of BI advocates to this putative dilemma raises complicated issues.

For a start it may be argued that a partial BI (whether seen as permanently partial or as a stage on the way to full BI) cannot stand on its own. Rather it needs to be regarded as the unconditional component of a new system which offers social protection up to an agreed minimum, and is better suited to contemporary labour markets. The beneficial effects of unconditional BIs, as well as the total cost of the new system — including its conditional part — will ultimately depend on the desired level of the social minimum over time. Therefore a key question is how that level should be decided. In principle, the level is indexed by law to increases in earnings. But the law includes an exception clause, which has often been invoked, with the result that the level of the social minimum has not actually kept pace with earnings.

Secondly, as became abundantly clear at a conference organised by *Vereniging Basisinkomen* in February 1996,[5] the behavioural impact of any given level of BI, especially its impact on labour costs, depends crucially on the financing method used — a point that is usually overlooked. However there is the possibility of a strategic trade-off here. Either one tries to finance the BIs by the traditional means of higher marginal rates of income tax — implying acceptance of adverse labour supply effects and a lower sustainable BI amount; or one takes the more ambitious route of trying to introduce BI *in conjunction with* radical reform of taxation and the financing of social security — implying a higher sustainable BI, but at the cost of having to provide independent arguments for introducing two fundamental reforms at the same time.

Dordrecht: the first ever BI pilot

Finally, on the basis of a proposal developed by Paul de Beer and Loek Groot of *Vereniging Basisinkomen*, the Greens in the city of Dordrecht are currently in the process of persuading their City Council to conduct a real-life experiment with BI. The experiment, planned to run for two years, aims to compare the labour market behaviour of a control group staying within the present tax and social security systems with a group of workers and claimants who will receive the same benefit amounts as the control group in the form of BIs which they will be allowed to combine with their preferred mix of paid and unpaid activities.[6]

Professor van der Veen teaches political theory and economics at the Department of Political Science, University of Amsterdam. He is involved in preparing BIEN's Seventh International Congress, which will take place in Amsterdam in September 1998.

Notes and references

1 This is the most recent, but least ambitious, of two BI variants set out by the *Vereniging Basisinkomen* (Dutch Basic Income Group) in 1995. The other variant aims at a BI equal to 100% of the Dutch social minimum for a single person (about Dfl 1300).

2 *'Work, work and yet again work'*.

3 *Wetenschappelijke Raad voor het Regeringsbeleid (WWR)*, see Jos Dekkers, *Safe-guarding social security in the Netherlands*, BIRG Bulletin No. 6.

4 This survey was repeated in 1995, with comparable results: 36%, 23% and 58% respectively.

5 *A future welfare state with Basic Income*, conference at Noordwijk, 23-24 February 1996.

6 For further information, contact Loek Groot, Faculteit der Sociale Wetenschappen, Heidelberglaan 1, 3584 CS Utrecht, Netherlands.

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.

Austria

From Vienna with love — BIEN's Sixth International Congress

Tony Fitzpatrick reports: BIEN is the acronym of the Basic Income European Network, founded in 1986 in Louvain-la-Neuve, Belgium. Last September the United Nations Conference Building in Vienna was the setting for BIEN's Sixth International Congress. This three-day conference, which was attended by more than 160 people from 24 countries, showed that the Basic Income (BI) idea has spread far beyond Europe, that it is increasingly relevant to current problems, but that the *status quo* continues to prevail almost everywhere.

Numerous tributes were paid to the late James Meade, and included an address by his daughter, Bridget Dommen-Meade. Through the many references to both Meade and Thomas Paine the Congress not only established BI's historical roots, but the fact that BI supporters remain more forward-looking than their critics.

The opening plenary session set the tone for the following few days. Bernd Marin, Director of Vienna's European Centre, described a Europe characterised by mass unemployment despite a growth in overall employment levels. This is because poor jobs are being created while good ones are disappearing. Nevertheless, as Guy Standing from the International Labour Organisation (ILO) observed, we seem set to experience further moves towards selectivism and workfare, based upon an obsessive desire to penalise the so-called undeserving poor. Yet Gar Alperowitz from Washington pointed out that the distribution of wealth is overwhelmingly determined by our economic and technological inheritance, not by hard work or risk-taking. Does BI represent a 'something-for-nothing' income, or an overdue attempt to challenge the unfairness of the genetic lottery?

In addition to theoretical arguments in its favour, BI was also shown to work in practice. The Congress watched a video from Alaska which explained the Alaska Permanent Fund and its wide (though not universal) popularity. Financed out of the profits from oil drilled at Prudhoe Bay, the Fund provides what is effectively a social dividend. By 1996 it was paying out $990 (about £650) per annum for each man, woman and child. **See Books and Papers received.**

We also heard from Senator Eduardo Suplicy about the possible introduction of a Guaranteed Minimum Income in Brazil. This reform, approved by the Senate in 1991, would build upon existing, more localised innovations in minimum income provision.

Reports from elsewhere around the world were less favourable. In many countries the BI debate is in its infancy. And even where it is quite advanced, the social. political and economic establishments take little notice. To varying degrees, this seems to be the case in Belgium, Italy and the Netherlands (and Britain, of course). In Ireland BI has attracted high-level interest from politicians and policy-makers, without really registering on either the media or public opinion.

On the second day of the Congress we began by looking at BI in the context of the labour market. According to Georg Vobruba (University of Leipzig) there are basically two interpretations regarding BI's likely effect. The first is that it could lead to a process of labour market inclusion, by enabling wages to be combined with transfers, avoiding the poverty and unemployment traps, freeing up the labour market and stimulating investment and innovation — without creating millions of working poor. The second is that BI would lead to labour market exclusion, by strengthening social divisons (for example gender-based divisions of labour) and damaging the existing transfer system. Vobruba called for more empirical research.

Guy Standing then treated the audience to an analysis of employment subsidies which, like workfare and benefit privatisation, are increasingly fashionable. Standing outlined a number of advantages which subsidies can be said to possess — for instance they encourage job creation in a way that emphasises the rights and needs of labour. But he then sketched numerous disadvantages, which he regards as far outweighing the advantages. Job subsidies, he said, discourage restructuring and have regressive effects, because there is little trickle-down to the lower-paid and the unemployed. They are administratively expensive and penalise efficient firms, whilst helping those lucky enough to be in the process of expanding. Research shows that most subsidised jobs would be created anyway and unemployment does not fall to any great extent — it is just churned around. Additionally, all job subsidies have distorting and wage-inflationary effects.

Whilst agreeing that BI could have many advantages, Rick van der Ploeg (a Dutch Member of Parliament) raised a number of objections to it. Even if employment subsidies do not work — and in Holland he insisted that they do — this does not in itself establish the case for BI. A BI, he claimed, would be too expensive, would not re-distribute enough, and would be too blunt an instrument to deal with individual needs and circumstances. There is an inevitable trade-off to be made, he said, between privacy and efficiency. BI respects people's privacy but at considerable economic cost. Those in genuine need are best helped by being distinguished from those who are undeserving. Surveillance of the poor — and enforcement of their duties to society — are necessary for the relief of their poverty.

The workshops at this Congress reflected the breadth of subjects upon which BI touches, as well as the depth of discussion it encourages. The philosophical angle was represented in papers dealing with social justice and the ethics of unconditional provision. Economic issues were represented in papers relating BI to poverty, unemployment and economic democracy. Other contributions linked BI to post-employment proposals, like planned working-time reductions. There were references to transitional BI schemes — existing or proposed — to welfare institutions, welfare reform and administrative procedures within the tax and benefit systems. And finally, the ecological theme was as popular as ever, with some delegates insisting that an effective BI can only be funded out of eco-taxes of one sort or another.

More than two dozen papers were presented. If any common denominator underlay them, it is perhaps that BI has more implications than politicians and journalists appreciate.

The final, plenary session provided an opportunity to hear from several of BI's most prominent and influential supporters, particularly Claus Offe and Philippe van Parijs. Offe insisted that the rationale behind the objective of full employment is the maintenance of social order and discipline, since a jobs-oriented approach to social justice equates the 'citizen' with the 'worker'. But to equate 'work' with 'employment', by tying income to employment status, devalues non-waged forms of work. BI, by contrast, demands a wider definition of work as 'creative participation', so that people can pursue activities in and outside the labour market.

For Offe, the transition to BI will have to be gradual, for three reasons. First, because we need to find ways of challenging the accepted norms of labour market participation. Second, because we can only introduce BI at a modest level (to begin with). And third, because of the need for caution while moving away from existing income maintenance systems.

Van Parijs asked how America's war on poverty of the1960s had turned by the 1990s into a war against the poor. In part the change occurred because of the belief that the best way of fighting poverty is by targeting the poor. Once a selectivist system is in place, the more prosperous income groups withdraw their support for the welfare state and opt out. In the United States the economic dynamics of exclusion were followed by the political dynamics of welfare erosion, and now Western Europe is in danger of going down the same road.

Van Parijs sees a need to defend existing rights and institutions — such as the trade unions — but also a need to transcend the *status quo*. Benefits paid to compensate for lack of earnings not only fail to prevent unemployment, they may well increase the risk of unemployment. The future shape of the welfare state will be determined by whoever wins a conflict which is already in progress. On the one side are the conditionalists, who attach strings to all welfare claimants; on the other side are the unconditionalists, for whom the fewer strings the better. And the difference between them comes down to disagreements over one apparently simple concept: *freedom*.

For van Parijs, the purpose of our society should not be to keep people busy but to allow them to choose either paid employment or other pursuits, as they see fit . At present, this freedom is largely restricted to the rich. BI offers an opportunity to extend that freedom and so create real freedom for all. Like Offe, van Parijs accepts the need for compromise and gradualism — a *participation income*, as advocated by Tony Atkinson, might be acceptable. But against those who criticise BI as politically impractical, van Parijs insists that what is practical is determined by what we demand of the political system.

If any one argument offers a justification for the BIEN Congresses of the past, and of those to come, then this is it.

Dr Tony Fitzpatrick is a lecturer in the Department of Social Studies, University of Luton in Bedfordshire. He attended the BIEN conference on behalf of Citizen's Income Trust.

Note: For information about BIEN, readers should contact Philippe van Parijs (BIEN's Secretary) at the Université Catholique de Louvain, 3 Place Montesquieu, B-1348 Louvain-la-Neuve, Belgium.

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Bolivia

A citizen's pension?

Sally Bowen reports: Bolivia's new pension law has caused a storm — the confederation of unions is opposing it, as are a number of professional groups, who think (I believe wrongly) that they will lose out. It has passed the Senate and is currently being debated in the lower house. It should have passed into law by mid-December.

Pensions from the 'collective capitalisation fund' (i.e. revenue from capitalisation of state-owned companies and the dividends) will be paid to all adult Bolivians over the age of 65 — including those in the future who reach that age and were 21 by the end of 1995. There is no needs test. The pension is expected to be around $200 a year plus $200 payable on death to cover funeral expenses.

Editor: We hope to tell you more about Bolivia's new pension law in Bulletin 24.

Canada

Backdoor negative income tax

Derek Hum reports: Canada is reforming major portions of its tax-transfer system with respect to dependent children and the elderly. Indeed, when the snow has settled, Canada will have moved closer to a negative income tax, albeit unwittingly. The process involves two stages. The first is already in place, the second will take effect at the turn of the century.

Families with children: On January 1, 1993, Child Tax Benefit replaced three separate devices by which cash payments were previously directed at families with children. The first, Family Allowances, introduced in

1945, gave families with children a flat-rate monthly benefit regardless of their income or assets. Benefits were partially indexed, taxable and subject to recovery from higher income families through a 'clawback' process. Families with children also benefited from a non-refundable tax credit when computing their income tax liability, a measure which is of no benefit to low-income families without taxable income. However, a refundable child tax credit — meaning one which converts into cash when there is no income to set against it — provided some assistance. Unlike Basic Income, however, eligibility was based on family, not individual income.

The Child Tax Benefit programme, which replaced the three above programmes, unifies the allowance, the credit and the refundable credit into a single monthly, partially indexed, tax-free payment (see Table). Families with dependent children under 18 years old receive a cash payment based on the number of children and net family income reported in the previous year's tax return. Children are included in the benefit formula in a complicated way, with declining amounts for third and subsequent children, a supplement for those under 7, and in some provinces (notably Alberta and Quebec) variations based on the age or rank of the child.

There is also a modest earned-income supplement for families with a working parent, which pays families 8% of working income in excess of $3,750, but reduces the supplement at a rate of 10% of net family income in excess of $20,921. Since it is capped at $500, the earned-income benefit is insignificant. The entire Child Tax Benefit is structured as a refundable tax credit — payable in cash to families, normally the mother, without the earnings to set against it — and paid by the federal government. Hence it differs only in language from the familiar negative income tax designs.

CANADA'S CHILD TAX BENEFIT STRUCTURE, 1993

		$ year
Basic benefit		**1 020**
Alberta variation	**0-6 years**	**933**
	7-11 years	**1 002**
	12-15 years	**1 132**
	16-17 years	**1 203**
Quebec varation	***Child 0-11 years***	
	First child	**869**
	Second child	**1 000**
	Each additional child	**1 597**
	Child 12-17 years	
	First child	**972**
	Second child	**1 103**
	Each additional child	**1 700**
Supplement for 3rd and each additional child		**75**
Supplement for child under age 7		**213**
Earned-income supplement		**500**
Reduction threshold		**20 921**
Minimum income for entitlement		**3 750**

Pensioners and Seniors: At the opposite end of the age spectrum, the elderly are also the focus of change. The budget speech of 6 March 1996 proposed sweeping changes, beginning in the year 2001. A new Seniors Benefit will replace the current Old Age Security pension (OAS) and the Guaranteed Income Supplement (GIS). Additionally, special tax credits for those over 65 and special treatment of pension income will be eliminated, essentially doing away with provisions which lessen the tax burden of elderly people in receipt of occupational pensions.

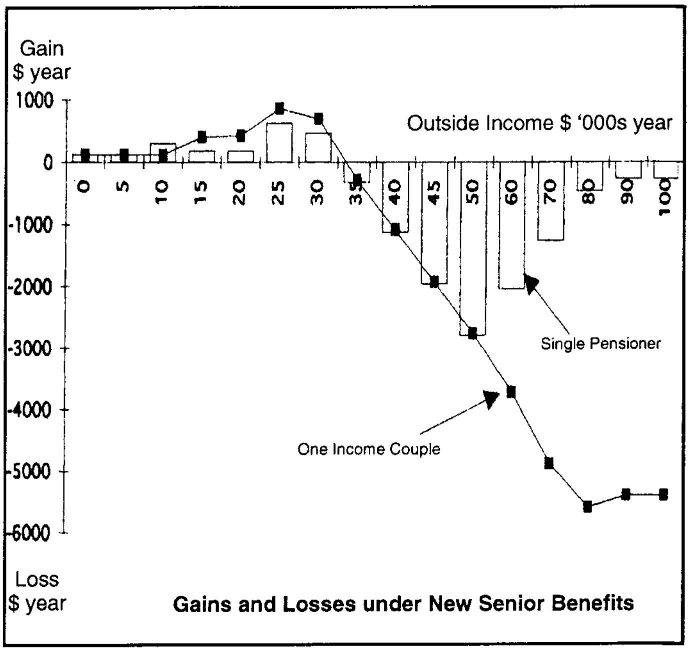
The proposals are complex, even leaving aside the equally complex 'transitional provisions'. OAS and GIS were the cornerstones of Canada's first-tier income security system. OAS paid a taxable, fully indexed flat-rate benefit each month to every individual over 65 satisfying a residency requirement, without regard to other income or wealth — a Citizen's Income for the elderly. Meanwhile GIS paid an income-tested benefit to low-income pensioners, with payments reduced by $1.00 for every $2.00 of outside income.

The proposed Seniors Benefit will pay a fully indexed non-taxable benefit to seniors based upon family rather than individual income. As outside income rises, the Senior Benefit will be reduced at rates depending upon whether overall income is 'high' or 'low'.

Although the combined impact of all these tax and transfer changes is anything but clear, and the eventual programme may differ from the announced proposals, preliminary calculations suggest that the pattern of gains and losses is redistributive downwards from rich to poor. Whether it redistributes sideways from couples to singles is less clear, as it depends upon whether couples have one or two incomes. 'Losses' set in at about $35,000 of outside income for single pensioners and couples.

It is important to note that these gains and losses refer to the redistributive effects of the proposed reforms, and do not address whether or not the resulting income levels meet recipients' needs. We do not know what other sources of income might be available to seniors. The Canadian poverty lines for 1995 are approximately $16,000 (singles) and $21,000 (couples).

Estimated annual gains / losses, Canadian pensioners, 2001



The chart, which is adapted from calculations by the National Council of Welfare [2], illustrates the annual gains and losses in the year 2001, at different income levels, for single pensioners and one-income couples.

Meanwhile the 'second tier' Canada Pension Plan / Quebec Pension Plan is also being reformed.This is a government programme which gives retired people an earnings-related pension financed by earnings-based contributions from employers and employees. Discussions are currently under way with the provinces concerning changes, as both orders of government have constitutional standing with respect to these plans. Canada's third tier of programmes for seniors consists of employer-provided pensions or tax-assisted individual, voluntary retirement savings plans.

What should one make of all these changes, particularly from the perspective of a Basic Income? First, BI advocates will doubtless lament the passing of two such popular demogrant programmes. Canada will no longer have any programmes delivering benefits on an unconditional basis, whether 'clawed-back' or not. Many BI advocates felt that the simplest way of achieving BI in Canada would have been to extend the demogrant mechanism to include all those between 18 and 64 years of age, thereby seamlessly blending the new programme with those already in place. But this possibility has now gone.

Second, the expansion of the refundable tax credit technique places delivery of social benefits more and more with the finance department — in other words tax-and-transfer functions are being increasingly integrated, which is likely to meet with approval from advocates of negative income tax .

Finally, the proposals as a whole appear redistributive towards those units with lower family, rather than individual, incomes. Canada will be much more selective than universalistic in future.

Derek P.J. Hum is Professor of Economics at the University of Manitoba, Canada. During the late 1970s he was Research Director of an experimental guaranteed income programme in Canada.

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1 Derek Hum, *On Integrating Taxes and Transfers,* Canadian Tax Journal, Vol. 36, No.3, 1988.

2 National Council of Welfare, *A Guide to the Proposed Seniors Benefit,* Ottawa, Summer 1996.

3 Canada, *Inventory of Income Security Programs in Canada,* Supply and Services Canada, 1994.

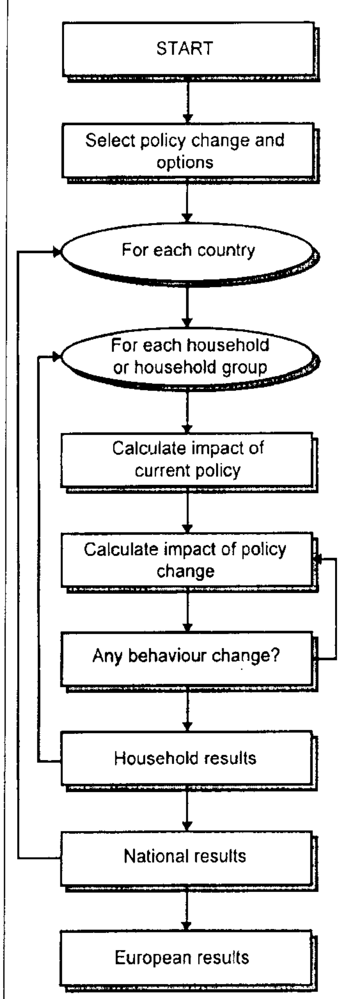
European Union

A European 'Benefit-Tax' Model

Holly Sutherland reports: It was announced last September that the European Commission will fund a study to examine the feasibility of constructing a tax-benefit model, EUROMOD, which will cover all 15 Member States. The aim is to construct an integrated tax-benefit model which will assist the evaluation of "social integration policies and the implications of fiscal and economic decisions on levels of social exclusion". EUROMOD will not replace national tax-benefit models; instead it will focus on comparability across countries, facilitating European-wide analysis.

For readers of this Bulletin EUROMOD offers the unique advantage of allowing users to see the effects of actual or proposed policy changes in different member states at a European level . It could, for example, estimate the effects on living standards and incentives, for the Community's estimated 50 million poor, of different CI options. The method will resemble that used by Holly Sutherland and Hermione Parker in previous CI Bulletins, to estimate the costs and redistributive effects of illustrative BI schemes in the UK. To be able to do this at a European level, EUROMOD will make use of available household micro-data for each country. Where such data are unavailable, aggregate data will be used instead.

How EUROMOD will work



EUROMOD's project team includes:
Holly Sutherland, co-ordinator (UK)
François Bourguignon (Fr)
Danièle Meulders (Bel)
Nicola Rossi (It)
Anders Klevmarken (Sw)
Aino Salomäki (Fin)
John Hills (UK)
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Other countries are represented by country respondents.

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Ireland

'Beyond equal treatment'

Hermione Parker reports: The EU Conference in Dublin from 10th-12th October was unusual. It was enjoyable (despite the occasional bomb scare), most of the delegates were women (some thought the balance had gone too far), and our Irish hosts went out of their way to make everyone feel welcome. There were two high points, both uniquely Irish: the opening address by President Mary Robinson — chic, soft-spoken yet ever to the point — and the after-dinner musical entertainment in Dublin Castle — not a professional group brought in at taxpayers' expense, but the Department of Social Welfare's very own 'diva', followed by spontaneous contributions from the floor!

Best news of all, for readers of this Bulletin, this was the first EU conference I have attended where real Basic Income (not a means-tested version of it) was on the agenda and key speakers made unsolicited comments in its favour. In between the pubs and the songs a great deal of work was done and a great deal achieved — perhaps not what the European Commission was hoping for, but none the worse for that. Alex Brenninkmeijer (Vice-President of the Netherlands Court of Appeal for Social Security) put in unexpected words in favour of Basic Income. Danièle Meulders (l'Université Libre de Bruxelles and a member of EUROMOD's project team **(see entry above)** went even further. She advised the Commission to take a serious look at BI.

A full session was devoted to analysis by Anne McManus of an Irish Government Report on *Integrating Tax and Social Welfare* **(See pp 4 - 6 of this Bulletin, and Books and Papers received, p 25).** At the end, speaking from the floor, I commented that the report had concentrated disproportionately on aspects of BI which can be quantified, as a result of which some of BI's potential, especially in regard to family policy, was entirely overlooked. Anne McManus replied that it was not the first time this comment had been made.

In response to Danièle Meulders' recommendation that the Commission look closely at Basic Income, at the end of this Bulletin we reprint the final chapter of a 54-page booklet by the late Sir Brandon Rhys Williams, published shortly after his death in 1988. Sir Brandon was for many years a member of the European Parliament as well as a member of the British House of Commons. He maintained that a BI payable to all legal residents of the European Union would strengthen the Union by making it more meaningful to ordinary citizens at grass roots level.

Israel

A temporary Basic Income? Israel's Absorption Package

John Gal reports: Starting in early 1990, in an attempt to deal with the mass influx of Jewish immigrants from the former Soviet Union, the Israeli Government inadvertently adopted what can be regarded as a unique example of a temporary BI — called the *Absorption Package.*

Until the late 1980s, policies for new immigrants into Israel consisted primarily of immigrant absorption centres providing temporary housing and in-kind services during the immigrants' initial period of adjustment. However, the mass influx of immigrants in the early 1990s — more than half a million into a country of under six million —caught the authorities by surprise. Lacking the facilities to absorb the newcomers and wary of the implications of establishing the vast administrative infrastructure necessary to provide means-tested or work-tested benefits for them, the Government adopted an idea suggested by Ministry of Absorption officials a few years earlier, namely a benefit provided without a means test or a work test to every immigrant during the first year after arrival in Israel.

This absorption package is a benefit paid to all immigrants from non-Western countries who do not live in absorption centres. The package is intended to cover all the immigrant family's needs for the first year of stay in the country, and to enable the adults to learn the language and enter the labour market. The idea behind it is to let the immigrants themselves decide how best to spend the funds at their disposal, without state intervention.

The benefits are paid according to family size and are relatively generous. Thus a family of three receives a sum of approximately $10,000 (the equivalent of £6,500). Unlike BI, however, the unit of assessment is the family, not the individual. Payment is made monthly to the family's bank account. Over time certain changes have been made to the benefit, the most significant being that the final five months' payment now takes the form of an interest-free loan rather than a grant.

Adoption of the Absorption Package was not a conscious move towards BI. On the contrary, recent Israeli Governments had generally adhered to New Right views regarding the welfare state. Instead, the benefit appears to have been the result of several factors. First, it emerged due to lack of in-kind facilities and administrative structures necessary to absorb the mass influx of immigrants. Second, it reflects a struggle between the central Government Ministry of Immigrant Absorption and the non-governmental Jewish Agency, which had previously controlled the absorption centres. By adopting the Absorption Package the Ministry was able to wrest control over the process of initial immigration away from the Jewish Agency.

The Absorption Package can also be linked to the dominant ideological tendencies of successive Israeli governments. The readiness to invest the sums necessary to finance the benefit indicates the importance of Jewish immigration to Israel. The decision to adopt a non-means-tested benefit reflects the determination of Government and Treasury decision-makers to prevent bureaucratic growth and to encourage the free market. Instead of Government providing services, it gives immigrants the funds necessary to enable them to invest in the free market at their own discretion.

The Absorption Package is an interesting case of a time-limited BI programme for a specific population group. The decision process which led to its adoption, its economic implications and its effects on the labour market behaviour of immigrants provide themes that are extremely relevant to the debate on Basic Incomes, their implementation and their effects.

Dr John Gal submitted a paper on this subject to the BIEN Conference in Vienna in September 1996. His address is: c/o STICERD, London School of Economics, Houghton Street, London WC2A 2AE. E-mail: J.gal@lse.ac.uk.

United Kingdom

Carnegie conference: The Third Age — The Third Stage

Hermione Parker reports: The purpose of a conference organised by the Carnegie UK Trust was to mark the end of the present stage of their work on the Third Age (**see Books and Papers received**); to assess progress; and to chart ways in which future third-agers (defined as people aged 50-75 years) could be enabled to contribute more fully to the economy and to society.

Unfortunately, despite many interesting contributions, when it came to retirement incomes the only proposal put forward would involve increased dependence on means-tested benefits for pensioners with broken work records or previous low earnings — against higher occupational pensions (financed partly through tax breaks) for the rest. This proposal came from Terri Banks (Project Director of the National Association of Pensions Fund (NAPF) Retirement Income Inquiry and formerly Director of the Carnegie Inquiry into the Third Age). She justified the NAPF proposals on grounds of cost effectiveness, on the basis of projections obtained using the Institute for Fiscal Studies microsimulation model.

Many in the audience were clearly uneasy and when I spoke in favour of a universal Citizen's Pension, on which small savers would be able to build without being caught in a pensioner poverty trap, there was a round of applause. The NAPF enquiry, I suggested, lacked lateral thinking. It is good news for people with good occupational pensions, but bad news for everyone else. Moreover the IFS model, though excellent for measuring short-term impacts of tax and benefit changes, is misleading when used for projections looking thirty years ahead.

Plater College summer school A tax and benefit debate

Malcolm Torry reports: Plater College does for the Roman Catholic Church what Ruskin College does for the Trade Union movement and this year it celebrates its 75th anniversary. As well as its full-time courses, it runs a regular summer school, attended mainly (but not exclusively) by Roman Catholics. This year, among the more ecclesiastical lectures and debates, there was half a morning on regeneration in the North-East, half a morning on the future of the Trade Union movement and half a morning on Citizen's Income and Christian morality. Brief addresses by Malcolm Torry were interspersed with lively and intelligent debate on our current tax and benefit systems, on the unconditionality or otherwise of God's love for us, on the pros and cons of a CI, and on the relationship between morality and the Christian faith.

Seminar at Green College Oxford: Ecotax reform and Citizen's Income

Hermione Parker reports: On 4 November 1996, a day-long seminar in Oxford, at the Green College Centre for Environmental Policy & Understanding, tackled the subject *Ecotax Reform and Citizen's Income: Some economic, social and political issues.* The chairman was Sir Crispin Tickell, former diplomat and now Director of the Centre. The purpose of the seminar was to review progress in establishing the case for ecotax reform on economic, employment and environmental grounds, and to discuss how obstacles to ecotax reform might be overcome, by avoiding regressive effects and easing the losses for potential losers, such as energy supply, energy-intensive and high-pollution industries.

Citizen's Income was recommended, partly as a means of offsetting the potentially regressive effects of 'green' taxes. However the three delegates from Citizen's Income Trust (Ken Mayhew, Pembroke College, Oxford; Hermione Parker, Editor CI Bulletin; and Philip Vince, a CI Trustee) all took the view that there is no logical connection between 'green' taxes and CI. Each stands or falls on its own merits and by linking them together the case for each may be weakened. The alleged connection between ecotaxes and CI, said Ken Mayhew in his address, is a red herring, which could damage both causes. The chairman agreed and most of the audience appeared to do the same (although no vote was taken).

'Parents at Work' conference introduced to BI

Susan Raven and Hermione Parker report: On 23 November, at the Annual Conference in London of Parents at Work (formerly the Working Mothers' Association), the final session debated tax and benefits. Helen Barnes from the University of York set the ball rolling by comparing family policies in the EU member states. But for readers of this Bulletin the key debate was between Hermione Parker and Malcolm Wicks MP, who is a front-bench spokesman on social security for the Labour Party.

The present tax and benefit systems, said Parker, penalise families with children, especially single-earner families. In the majority of cases both parents now need to be in paid work to obtain a reasonable living standard, and this is partly due to tax changes since 1979. At two-thirds average manual earnings, the percentage of earnings taken from a lone mother in income tax, social insurance contribution, council tax and local authority rent is 31% today, compared with 6% in April 1979. For a couple it is 36% now compared with 20% in 1979. (In each case the families are assumed to have two children, and child benefit has been counted as a negative tax.) Families with two children need to earn over £400 a week to reach the 'modest-but-adequate' living standard to which most families aspire. Yet average manual earnings are about £300 a week for men and £200 for women.

The only reform currently on offer which could increase the living standards of families with children on below-average earnings — without catching more parents in the poverty trap — is a Citizen's Income. Unlike the November 1995 Budget, which helped rich families more than poor families, even quite small BIs of £17.75 a week would redistribute downwards from rich to poor and sideways from non-parents to parents. Such changes are essential if mothers are to have more real choice about when to return to work — and for how many hours a week.

From Malcolm Wicks there followed some remarkable statements. Yes, CI does have its attractions — he used to favour it — but it is too expensive. The figures quoted by Parker should be treated with caution. CI is definitely not a feasible option. The office of Gordon Brown (Labour's Shadow Chancellor) checked out the CI proposals advocated by Lord (Meghnad) Desai and found them too expensive. Yet Desai used the same computer model as Parker. From which it follows, Wicks seemed to allege, that all CI proposals are either too expensive or ineffective .

Can it be that Labour's Treasury team have ruled out CI on the basis of a single scheme? Don't they realise that changes could have been made to Lord Desai's proposal which would have reduced its cost ? Or do they have a hidden agenda? Is Borrie forgotten? Is the Labour Party leadership — like the Tories and the Liberal Democrats — going for a means-tested welfare state?

A celebration of Brian Abel-Smith's work

James Dickens reports: On 8 November 1996 a wide range of distinguished academics, mostly former colleagues of Brian Abel-Smith, who died last April, came to the London School of Economics to discuss his contribution to social policy. Brian was a renaissance man. Over a period of forty years, he produced important work on the National Health Service, International Health Services, housing, poverty, social security, the legal system, justice and social care. On social policy, his book *The Poor and the Poorest,* written with Peter Townsend and published in 1965, made a major impact by demonstrating that twenty years after the foundation of the welfare state poverty persisted, especially among children and the elderly. This book forced poverty back on to the political agenda. Subsequently Abel-Smith became a special adviser on pensions to Richard Crossman (1968-70), to Barbara Castle (1974-76) and to David Ennals (1976-79). There can be little doubt that his influence was a major factor leading to the introduction of child benefit — a Basic Income for children — in 1978.

Abel-Smith believed unshakably in the Beveridge concept of the welfare state, based upon National Insurance principles. None of the contributors, throughout this celebration, made any mention of Citizen's Income. However, during the workshop on poverty and social security, Professor David Piachaud, in response to my question, said he thought Abel-Smith would probably have regarded CI as a vision of Utopia. I found this a disappointing, and indeed an astonishing, reply.

One can only conclude, if this reply was accurate, that Abel-Smith did not keep up with the current literature on the subject, particularly the numerous detailed, fully costed schemes which have appeared in the CI Bulletin and elsewhere, and which show how CI might be introduced on a revenue-neutral basis.

But this was, for me, the only blemish in an otherwise admirable and most appropriate recognition of the life and work of one of Britain's foremost social thinkers this century.

Book Review

LICENSED TO WORK

Barrie Sherman and Phil Judkins

Cassell, 1995 221 pp
ISBN 0 304 33371 9 hbk
ISBN 0 304 33372 7 pbk

Geoffrey Goodman writes:

THE WORK REVOLUTION

After reading this book the question that must be put is this: *Why is it that the Sherman-Judkins book has so far failed to cause a sensation?* The only feasible answer I can think of is that the book has, sadly, been left largely unnoticed.

For what the authors are saying is that we have reached the end of a work-driven society. That the work ethic is dying and will soon be dead. And that it needs to be replaced by a revolutionary new concept of work-for-pleasure rather than economic necessity. Of course I paraphrase and summarise; but that is the essence of this remarkable study and analysis of the nature of change in our contemporary society.

Madness? Perhaps. Yet it is a message that is written with such force and compelling rationale that it is impossible to ignore it or shuffle it off as simply the musings of a couple of eccentrics. Neither Barrie Sherman nor Phil Judkins are such people. They are distinguished experts in this field and have written previous studies on the subject of change in our working habits and practices — albeit nothing quite so dramatic as this book.

The starting point to their argument is that the extraordinary developments in scientific and technological innovation throughout the entire industrial and manufacturing system have transformed the nature of work and virtually eliminated the relationship between the individual and the workplace — a relationship established by the early industrial revolution as well as the Christian work ethic.

There are currently more than 35 million people *officially* unemployed in the "mature industrialised countries" and an estimated further 13 million "non-employed" though available and willing to work. That is the Sherman/Judkins estimate based on available statistics. My own calculation would, in fact, be even larger because of the now universal official practice of deliberately under-estimating and disguising reality. But leave that aside. The *official* estimate is frightening enough.

Armed with the official figures the Sherman /Judkins analysis concludes that we have indeed reached a fundamental turning point in the nature of work and that since the advance of technology will proceed at an even faster rate in future it is crucial to recognise the implications. They write:

"One of the two great fundamental urges in industrialised society, the urge to have paid employment, is now totally unfulfillable for millions of people and only partially fulfillable for many millions more. Another structural pillar of industrial society, consumerism, has been badly damaged by this unwonted change. Taken together these two developments are putting political systems worldwide under considerable stress" (page 196).

The authors see no way in which this challenge can be handled by conventional political, or economic, thinking. It is far too big for contemporary politics to tackle. So a new breed of politicians is also required.

Now, of course, this is dangerous ground. These are the phrases of Napoleon, of Hitler, of Stalin, of Mao and of all Grand Designers throughout the ages. But that doesn't mean that Sherman and Judkins are necessarily touching the wrong buttons. Their analysis is strongly resonant of Marx's critique of capitalism and its limitations — which the book acknowledges with particular respect to Marx:

> "Many of the preconditions for the train of events which Marx predicted as inevitable are — for the first time — starting to emerge. Most of them can be traced to the intensive use of micro-electronic technologies in the production and distributive processes" (page 199).

The book points out that this analysis could lead to the conclusion that the only rational answer to these challenges is for some form of authoritarian system, of the Right or Left, and the abandonment of democracy. The authors reject this counsel of despair and opt strongly for a radical and democratic solution. But they also recognise that this will not be easy to achieve. Hence their insistence that:

> "The world needs politicians capable of moving past the short term and telling the public what is really happening" (page 200).

Here we come to the nub of the argument and the justification of the book's emotive title, *Licensed to Work.* The authors actually suggest that we may well have to move to a system of work licences in order to protect a civilised relationship between sectors of society. They write:

> "Licences to work might sound bizarre but then so did driving licences when cars first appeared on the streets behind the man with the red flag . . . The work licence emerges naturally out of French smart-card technology, which in the very near future will be used as the basis of a very sophisticated, cashless money system and which will be the key to annualised hours, employment arrangements" (page 204).

To accompany such a revolutionary proposal the book also sets out a range of suggestions which would have to be placed on the agenda pad of any Government in future, run by the new breed of politicians. Those items would include: a regulated system of work-sharing; public sector jobs created in all areas to meet social needs in health, education, training, transport and construction; and a new taxation policy.

Sherman/Judkins propose three new punitive import taxes: *Child Labour Added Tax* (which would exclude a tax on paper-boys and girls); *Environment Added Tax*; and *Safety Added Tax*. All of these are designed to reduce the exploitation of vulnerable groups of workers and to reduce imports. The assumption the authors make is that such taxes would, of necessity, be European-wide and administered by the EU.

They also envisage a *Labour Transfer Tax* levied on companies replacing workers by technologically based systems solely to improve a domestic competitive position. And mobility of labour would need to be improved with better provision of low-cost and low-rent housing.

Yes, indeed we are talking about a revolution — which brings me full circle to the point I made at the outset about this book: *it is* sensational in its sweep and scope. Sherman/Judkins readily admit that they do not

> "believe that solutions lie with today's conventional politics. Indeed unless politicians learn to adapt swiftly, current political divisions and slogans may become as outmoded as were the Whig philosophies after the repeal of the Corn Laws. There is nothing sacrosanct about political parties. If politicians cannot make themselves, and their parties, relevant to prevailing circumstances they will follow the Whigs into obscurity" (page 207).

So the authors argue for a completely new vision that is capable of embracing this new society about to be born; a vision of a more cohesive, co-operative pattern of life, certainly based on democracy. A pattern capable of substituting our current work attitudes and work-ethic and enabling people to spend most of their 'working time' doing jobs they actually like doing and actively want to do, and living in (authors' phrase) "a world with less employment [that] should be a far nicer place" (page 209).

To help pay for this transformation Sherman/Judkins believe there will have to be some form of Citizen's Income system, tax-based, as the most "viable method of rationing employment" (page 214). **See also Citizen's Income Bulletin 21, page 3.**

It would be easy to deride this vast spectrum of change as somewhat exaggerated. For my own part I do not believe it will be feasible to accept the end of work in this way. The need to work is not merely an economic imperative; it is a necessary condition to the life force and to fulfillment. There is as strong a case for limiting and controlling the spread of technology in order to preserve jobs as there is to justify issuing work licences.

Nevertheless the thrust of the Sherman/Judkins case is, for the most part, undeniable — there is now a challenge never before faced on such a scale. I do not believe the challenge can be met without a great deal more Government intervention in the workings of the economy — any economy. Nor can this any longer be achieved by single, so-called sovereign, states. It is an international, soon to be worldwide, problem and its solution, assuming there is one, must also be international in scope and operation.

The alarm bell has been tolled.

Geoffrey Goodman was Industrial Editor of Mirror Group Newspapers and the Daily Mirror from 1969-86. He is now Editor of the British Journalism Review. He is also a regular contributor to BBC and commercial radio and television.

Book Review

THE IMPORTANCE OF MAKING WORK PAY

Paul Gregg and Jonathan Wadsworth

Employment Policy Institute Economic Report, Vol. 10 No. 3, March 1996, ISSN 1351-2145, 4pp, £4.00.

Ken Mayhew writes:

Paul Gregg and Jonathan Wadsworth provide an interesting and important analysis of the problems faced by people trying to leave unemployment.

The proportion of workless households has risen in the last twenty years. As Gregg and Wadsworth write: "The chance of someone entering work from a household where someone is already in work is 25%, but is only 15% from a workless household". They ask why.

The composition of households has changed towards those with lower chances of finding work, but this provides only a small part of the explanation. Nor is there any evidence that such households are searching less intensively for work. Hence the authors turn for an explanation to the tax/benefit system and the disincentives it imposes. Twenty five years ago, they say, we could be reasonably confident that the "poverty trap affected only families with large broods". Now we cannot be so confident.

The growth of what they describe as 'atypical employment' is important here. Over the recent past the chances of someone leaving unemployment for a full-time job have diminished. In early 1994 only 35% of those who left unemployment for work went into such a job. The rest went into part-time or temporary work, or into self-employment, or into a mixture of these. The pay associated with atypical employment is low. "The typical entry job pays only 44% of the gross weekly wages observed in all other jobs". "Hence the poverty trap applies to a majority of vacancies for almost everyone on benefits, except perhaps youngsters living at home and, significantly, those with working partners".

The analysis of the problem is convincing and well documented. As always, solutions are harder to find. Gregg and Wadsworth suggest a package containing a minimum hourly wage of around £3.50 an hour; higher tax thresholds, or a low 'introductory' rate of income tax; and benefit reforms. They stress the difficulties surrounding such a package, not least the difficulties of a further extension of Family Credit[1] or something looking suspiciously like it. They comment:

> "... such a strategy is not a panacea. Many groups would need additional help — lone parents with children, the long-term unemployed — to regain contact with work. Benefit traps would also continue for many of the lowest paying entry jobs and for those on multiple means-tested benefits. It is also expensive and that means it will either take a long time coming or require other changes in tax or expenditure."

Advocates of Citizen's Income should take careful note of this report. Rather than laying further complexity on a creaking means-tested system, this is surely an area in which CI ought to be championed.

I suspect that many sympathisers have worried about a Partial Basic Income. Whilst recognising the tax implications of anything more extensive, they have wondered about its impact. In the context which this paper describes its impact could be immense. Other sympathisers have been concerned about the encouragement which CI might give not to participate in the labour market at all. There are many arguments which can be deployed to allay this concern, but in any event, in this context, there is little to lose.

Ken Mayhew is an economist specialising in labour market economics, and a Fellow of Pembroke College, Oxford.

Note

1 UK Family Credit resembles a work-tested, means-tested negative income tax for lower paid families with children. The taper is 70%. However, because income tax, National Insurance contribution and council tax are charged at the same time as family credit is being withdrawn, families receiving family credit face implied marginal tax rates of up to 97 pence in the £.

> *Nothing, it must be recognised, so comprehensively denies the liberties of the individual as a total absence of money. Or so impairs it as too little...*
> *Meanwhile, nothing so inspires socially useful effort as the prospect of pecuniary reward ... This too the good society must acknowledge; these motivations are controlling.*
>
> J.K. Galbraith in: *The Good Society, Sinclair-Stevenson, 1996, page 4.*

Book Review

ARE FAMILIES AFFORDABLE? Tax, Benefits and the Family

Patricia Morgan
Centre for Policy Studies, 52 Rochester Row, London SW1P 1JU, 1996, 49pp
ISBN 1 897969 44 9, pbk, £5.95.

Martin Evans writes:

Patricia Morgan is primarily concerned with the financial difficulties faced by families with children, and the relative position of married couples with children compared to lone parents and families without children. Her analysis attempts to blame fiscal and social policies for the weakening position of families with children in the income distribution, for changing patterns of family formation, and for increasing family breakup. She then suggests changes in fiscal policy which will, she hopes, turn the problem round.

The tone of the pamphlet is mostly polemical, and it is a great shame that the author does not explicitly state her ideological preferences regarding family structures, women's participation in the labour market and macro-economic and welfare policies right at the beginning.

The resulting confusion is not helped by two further faults. First, she skates from one area of argument to another — jumping from taxation to means-testing and back to universal child benefits, without ever adequately rounding off any part of her analysis. Her second weakness is a tendency to argue using very poorly presented supporting evidence. Her presentation of research by other authors is extremely selective. It appears limited to authors whose findings coincide with what she wants to show. She is also selective in her presentation of evidence from them.

Moving to her policy analysis, she is vehemently opposed to means-testing, and does not want any extension of child-care provision outside the home. She dismisses Basic Income on the grounds that it:

> ". . . expressly promotes atomisation. Where the mother has her 'basic income', the child has its 'basic income', and the man has his 'basic income' then, with or without any extra personal remuneration, there is no onus on anybody to share or provide for anybody else. This policy therefore undermines mutual support and interdependence — effects which run counter to a successful family policy" (p 44).

She mentions private insurance but does not analyse extended social insurance.

Her preferences are to bring back child income tax allowances and move away from individual tax units towards a system where couples could pool their income tax allowances. She does not give any evidence of the effects this would have, or of how to pay for it. In addition, she wonders whether child benefit could be replaced by private insurance (p 48).

One reason for her emphasis on fiscal policy is her interest in the more family-oriented tax systems of France and Germany. However, in appreciating these elements of the French and German systems she is apparently blind to the overwhelming support for earnings-related social insurance which accompanies them. Nor does she make any reference to the French system of nursery school provision *(écoles maternelles)*, available free of charge to all children from the age of three. Yet appreciation of the benefits of other countries' fiscal welfare systems should only be done with an acknowledgement of their wider policy context.

The absence of any macroeconomic context — her proposals are not even costed — also means that her remedy, which amounts to a return to the 'halcyon' days of bread-winning males in one-earner, tax-supported families, is an economic anachronism. Growing inequality in male wages before tax means that there are huge difficulties in supporting children on single earnings, and new employment opportunities are increasingly low-paid, part-time and insecure. Present tax and benefit policies are being tailored to support and encourage continued labour-market restructuring in this direction.

If Patricia Morgan is arguing for a return to full employment (for men) then it would be nice to know.

Martin Evans is Research Officer in the Welfare State programme, STICERD, London School of Economics. His recent research includes studies of international tax and benefit policies and British social security.

By freeing individuals from the financial constraints which oblige them to accept any paid work, a 'universal benefit' would guarantee everyone a genuine right to work, as well as access to other activities.

Final Report on the Lund Carrefour, *What Future of Work in Europe,* European Commission, Forward Studies Unit, Brussels, 1995, page 7.

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). It 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.

Ein besseres und einfacheres Steuer- und Sozialsystem, Günter Schade, Fasanenweg 20, 85540 Haar, Germany, 1993, 100 pp, DM 10.

Proposals for a Citizen's Income *(Bürgergeld)*, worth DM 500 a month at 1990 prices; together with proposals for reform of health insurance and housing benefit.

The End of Work: The decline of the global labor force and the dawn of the post-market era, Jeremy Rifkin, a Jeremy P.Tarcher/Putnam book, G.P. Putnam's Sons, New York, 1995.

Although Rifkin does not advocate BI (on the grounds that 'something-for-nothing' is politically unacceptable), he does advocate payments for social sector activities — e.g. local charity and self-help groups. These, he claims, are already contributing about 6% to Gross National Product. See section headed *A Social Wage for Community Service,* pp 258-63.

An Alaskan's Guide to the Permanent Fund, Alaska Permanent Fund Corporation, PO Box 25500, Juneau, Alaska 99802-5500, USA, 1995, 22 pp.

This is an annual publication. The Permanent Fund pays "each Alaska resident who makes application and qualifies, no matter how young or old, rich or poor" an equal dividend the size of which depends on the Fund's performance in the previous five years. In 1995 the payment was $990. "The dividend program," writes its Executive Director, Byron I. Mallott, "is a finely-crafted piece of public policy which was specifically intended to create a broad and powerful constituency to protect the Fund, encourage its growth, and distribute a significant portion of Fund income for the benefit of the current generation of Alaskans. And it has worked . . . Dollar for dollar, the dividend program has been shown to produce a more positive macro-economic impact than any other government expenditure. Dividends help create thousands of in-state jobs each year with great efficiency and unparallelled equal treatment for all Alaska residents. Dividends also add significantly to the annual disposable incomes of Alaska's families."

Alternative to Global Capitalism: Drawn from Biblical history, designed for political action, Ulrich Duchrow, Jon Carpenter Publishing, PO Box 129, Oxford OX1 4PH, ISBN 90-6224-976-0, 1995, £11.99.

A theological plea for CI. Author's address is: Hegenichstrasse 22, D-69124 Heidelberg. Fax: 49-6221-781183.

Should Public Assistance be Targeted?, Eugene Smolensky, Siobhan Reilly and Eirik Evenhouse, Journal of Post Keynesian Economics 18 (1), Fall 1995, 3-28. First author's address: University of California, Graduate School of Public Policy, Berkeley, California, USA.

This paper, originally written as a report for the World Bank, offers a cautious plea for a modest demogrant or 'credit income tax', which would be paid at the same rate to every individual (irrespective of other income and withdrawn using a constant marginal tax rate. On the whole, say the authors, "a credit income tax is probably more efficient than a system that relies more heavily on means testing . . . but it may or may not be more efficient than targeting by categories." In their bottom line advice for the policy analyst, they emphasise two points: "Seek to put in place some minimum benefit program with a low cash demogrant and a low benefit reduction rate." Also: "In choosing among targeting methods, remember that targeting itself will likely create moral hazard and hence economic inefficiencies that may offset any fiscal advantages."

Citizenship Today: The contemporary relevance of T.H. Marshall, Martin Bulmer and Anthony M. Rees (eds), University College London Press, 1996, 306 pp.

A collection of lectures given at Southampton University between 1983 and 1995, in honour of the sociologist T.H. Marshall. Marshall's analysis of the welfare state in *Citizenship and Social Class* is at the heart of the contributions, four of which concern BI: James Meade's *Full employment, new technologies and the distribution of income;* Ronald Dore's *Citizenship and employment in an age of high technology;* Ralf Dahrendorf's *Citizenship and social class;* and finally Patricia Hewitt's *Social justice in a global economy?*, where she shows why she, as a member of Labour's Borrie Commission on Social Justice, rejected BI.

Financial Dependency on Men: Have women born in 1958 broken free? Heather Joshi and Hugh Davies, Policy Studies, Vol. 17, No. 1, 1996, 54pp.

This paper examines evidence from the fifth follow-up sweep of the 1958 National Child Development Study (NCDS) birth cohort, its purpose being to discover what is happening to financial imbalance between men and women within British couples. While British women approach half the labour force, few women in couples bring home as much as half the total cash. Most still leave the labour market on becoming mothers and subsequently return to part-time jobs. They therefore remain at least partially dependent on the income of their partners; and on derived benefits and widows' pensions in their old age. Policies to enhance women's earning power need to be complemented by policies to support the joint resources of whichever partner contributes more to unpaid labour. Although the authors do not say so, the introduction of a CI, especially in old age, would also boost women's financial independence.

Final Report on the Lund Carrefour "What Future of Work in Europe", 27-28 October 1995, European Commission, Forward Studies Unit, Rue de la Loi 200, B-1049 Brussels.

This is a most interesting report. After a gloomy analysis of labour market changes in Europe and elsewhere, three views of the future emerge: first, the 'flexible specialist' or 'multi-activity' person who performs two or three paid activities each day; second, the 'flexible biography' person, whose life is occupied by successive periods of full- or part-time work, training, family and social activities; third, the 'committed citizen' who attaches equal importance to paid and unpaid work, including family, cultural, social and political activities.

Although the third view is the most futuristic, by the end of the conference it was shared by most of the participants, subject to the proviso that all the activities should be accessible to all.

When the time came to formulate concrete proposals, the participants were generally critical of current policies, whilst approving of certain ambitious approaches. There was strong support for the view that reform has to extend beyond the labour market, to include social protection and modernisation of the welfare state. "By freeing individuals from the financial constraints which oblige them to accept any paid work, a 'universal benefit' would guarantee everyone a genuine right to work, as well as access to other activities" (p 7).

Integrating tax and social welfare, Report of the Expert Working Group on the Integration of the Tax and Social Welfare Systems, June 1996, 256 pp, ISBN 0 - 7076 - 2465 - 7, Government Publications Office, Sun Alliance House, Molesworth Street, Dublin 2, £12.00. **See Anne McManus on page 4.**

Life, Work and Livelihood in The Third Age: A Summary of the Report of the Carnegie Inquiry, 28 page leaflet available free from the Carnegie Third Age Programme, PO Box 160, Burnham Norton, Kings Lynn, Norfolk PE31 8GA.

This useful booklet contains a summary of the Report of the Carnegie Inquiry into the Third Age, which was published in 1993 and is being followed up by the Carnegie Third Age Programme. To a limited extent, it also refers to developments since publication of the Report. On income the central recommendation of the Inquiry was a major, urgent and consultative debate "particularly on the relative roles of state pension and means-tested benefits, but also taking into account the role of private provision". So far CI has made no headway in the Carnegie Inquiry. Yet at a Conference on 2 July 96 (**see At Home and Abroad, Carnegie UK Trust conference**) it was clear that pensioner groups are unhappy about proposals to increase reliance on means-testing. CI Trust needs to fight its corner. This leaflet sets the scene.

The Third Age: The continuing challenge, a report to mark the end of the second stage of Carnegie's work on the third age, The Carnegie United Kingdom Trust, 1996, 128 pp, ISBN 0 900259 35 3, obtainable from Shellwing Ltd, 127 Sandgate Road, Folkestone, Kent CT20 2BI, 128 pp, £15.

On third-age incomes, the only research referred to is *Pensions: 2000 and Beyond* , by the National Association of Pension Funds (NAPF). That report, which recommended privatisation of the bulk of UK pension provision, with Government playing a residual role through a new income-tested *assured pension,* was reviewed in CI Bulletin 22 by Chris Downs. **See At Home and Abroad, Carnegie UK Trust conference.**

The Good Society: The humane agenda, J.K. Galbraith, Sinclair-Stevenson, 1996, 152 pp, ISBN 1 85619 509 0.

This is the book behind Andrew Marr's BBC 2 interview with Professor J.K. Galbraith on 10 January 1996. If Galbraith were to become an adviser to Tony Blair, or Bill Clinton in his second term, asked Andrew Marr, what would he tell them? To which Galbraith replied: *I would strongly urge a compassionate base to sustain well-being, so that people have, even though there is some abuse, a basic income and basic health care, and that we have strong and concerned investment in education, not just for the productivity of education but for the enjoyment that comes from education.*

The book develops this thesis. On income distribution, Galbraith writes: "There is a strong chance that the more unequal the distribution of income, the more dysfunctional [the economy] becomes" (pp 62-63). On the right distribution of income, five 'ameliorating actions' are recommended: (1) A better break for those at the bottom. (2) Measures to ensure elementary honesty in financial transactions. (3) Stockholder and informed public criticism of personal income maximisation by corporate management. (4) The removal of tax concessions to the affluent. (5) A progressive income tax (pp 63-65).

Galbraith also takes a strong line on minimum wages. Direct action by the state is required to provide a socially adequate minimum wage. "Along with a basic safety net the good society must also protect the working income of its least favoured members" (p 67). Even if it were to cost some people their jobs, the gainers would out-number the losers.

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 55326 1 hbk, ISBN 0 521 55698 8 pbk.

Since the late 1970s, the gap between rich and poor in Britain has widened considerably. It has also grown faster in Britain than in any other comparable industrial country. Based on research funded by the Joseph Rowntree Foundation, the book brings together the findings of 29 leading specialists in a wide range of areas. Understanding the complexity of the issues is reckoned crucial to designing the solutions. This book is about the issues, not the reform options. We hope to include a review article in next summer's CI Bulletin.

Are Families Affordable: Tax, benefits and the family, Patricia Morgan, Centre for Policy Studies, 52 Rochester Row, London SW1P 1JU, July 1996, 49 pp, ISBN 1 897969 44 9.

The traditional family is breaking up. What is less well known is that two-parent families are more economically disadvantaged than lone-parent families. This is because the tax system is no longer based on 'ability to pay'. **See Book Review by Martin Evans.**

James Meade's Vision: Full employment and social justice, A.B. Atkinson, National Institute Economic Review, July 1996, 6 pp.

In this essay Tony Akinson emphasises Meade's "remarkable capacity to see the economy as a whole"; his vision as to "how social and economic institutions could be reformed to make the world a better place"; and his belief in the power of rational argument as a means of bringing about such reforms.

Meade's final published work, *Full Employment Regained?*, distills the essence of his thinking, writes Atkinson, especially with regard to the relationship between efficiency and equity objectives. Meade's central propositions are summarised as follows:

- Full employment can only be achieved by "targeting nominal aggregate demand" in a situation where "workers who seek employment in a free-enterprise economy, offer their services at a low enough real price for competing employers to employ them" (p7).

- The necessary wage of unskilled labour . . . would almost certainly be so low as to generate a socially undesirable distribution of income.

- Major changes in our institutions will therefore be necessary, including the introduction of a CI.

In its pure form a CI would replace all existing social security benefits and income tax personal allowances, so that income tax would be payable from the first £1 of income. CI would also require an increase in the tax rate, but administration would become more straightforward.

Meade was interested in Citizen's Income/Social Dividend/Basic Income throughout his long career. Atkinson lists some of his many contributions to the debate, starting in 1935 and ending shortly before his death in December 1995. For Meade, writes Atkinson, CI should be regarded "... as part of a more extensive reform of economic institutions, which would combine fiscal policy, recasting of wage and price-fixing mechanisms, to achieve full employment and an equitable distribution of income."

The central problem with CI is that of financing. "If the CI is to be an alternative to exisitng forms of income maintenance," says Atkinson, "then its provision at an adequate level is likely to involve a rate of tax of the order of 50 per cent on all other incomes." Meade's preferred solution to this problem was a *withdrawal surcharge,* meaning that the CI would be withdrawn at a higher rate on the first tranche of income. But this proposal has administrative as well as labour market implications. For example, it could lead to a situation where the CI had to be *claimed* on proof of low income. And it could lead to pressures for family or household tax units instead of individual units.

A further question is the impact of CI on work incentives. Atkinson takes the reader through the possible interactions of wages, tax and CI rates. He also analyses the policy alternatives, including the Earnings Top-Up (ETU), currently being piloted in the UK. Like family credit the ETU produces high rates of benefit withdrawal on the earnings of second earners, therefore it may aggravate the present polarisation of British families into two-earner and no-earner families.

Since 1996 Atkinson's preferred CI option has been a Participation Income, with the qualifying conditions broadly defined to include caring work, voluntary work, education and training. In his view, the aim of CI should be to cut dependence on means-tested benefits, complementing rather than replacing improved social insurance and a minimum wage.

The paper ends with an analysis of Meade's writings on *Agathotopia,* a mythical country which ran a budget surplus for long enough to redeem the national debt and purchase capital assets equal to half the nation's capital. In theory the amount purchased should be sufficient to finance a substantial part of the CI, but Atkinson has his doubts.

On the other hand Atkinson sees CI as a possible way of reducing income inequality and thereby of addressing the phenomenon noted in the 1995 OECD survey of the United Kingdom that "economic inequality in general hampers education and training reform".

Atkinson's conclusions are depressing. Yes, the positive effects of CI on work incentives might well reduce its cost, but without political support for redistributive taxation James Meade's vision is unattainable. In short the problem is primarily political.

Changing Europe, Angus Erskine (ed), Avebury, 1996. 196 pp, ISBN 1 85972 374 8, hardback, £32.50.

According to this report, European societies stand at a crossroads, with a choice between social cohesion and new opportunities. This book is the product of an ERASMUS funded programme. It has ten chapters — each by a different author — and the countries represented are Belgium, Britain, Germany, the Netherlands, Scotland and Sweden. Chapter 9, by Roswitha Pioch, a sociologist at Leipzig University, is titled *Basic income: Social policy after full employment.* In contemporary Europe, she writes, "we are faced with a situation where receiving social benefits depends on waged work but, as an adequate basis for social security for all citizens, this condition is becoming increasingly problematic" (p 150). Five years after German reunification, East Germans still feel excluded. Between 1989 and 1991 the number in paid work fell from 9 million to 6 million and women were disproportionately affected (p 151).

Pioch's recommended solution is a Basic Income (Figure 9.2). However she sometimes refers to it as Basic Income and sometimes as Negative Income Tax, which will confuse some readers of this Bulletin. At one point she even claims that "in most proposals, a guaranteed basic income is constructed as a negative income tax . . ." (p 154). Yet the differences between NIT and BI are fundamental and are spelt out in Chapters 9 and 10 of Hermione Parker's book *Instead of the Dole* (Routledge 1989), to which Pioch refers. There is little doubt that the misuse and mistranslation of technical terms is a real and growing obstacle to progress in the debate about Citizen's Income.

Women and pensions: The case for reform, Hilary Land, Family Policy Bulletin, ISSN 0268 7410, 231 Baker Street, London NW1 6XE, July/August 1996.

The Family Policy Bulletin is the journal of the Family Policy Studies Centre. Research published during 1996 by the DSS and others shows that few women have adequate pensions in their own right, resulting in a strong case for rethinking pension policy. Although Hilary Land does not mention BI, she concludes that "the case for adequate state provision remains very strong, for the private sector cannot achieve significant redistribution in favour of those with low or interrupted earnings".

The impact of comparable policies in European countries: Microsimulation approaches, Tim Callan (Economic and Social Research Institute, Dublin) and Holly Sutherland (Microsimulation Unit, Department of Applied Economics, University of Cambridge), July 1996, 11 pp. Paper presented at the European Economic Association Eleventh Annual Congress, Istanbul, Turkey.

Simulation of the effects of comparable social and fiscal policies in countries within Europe is of particular relevance to the BI debate. One approach involves harmonisation of the capabilities and assumptions of existing microsimulation models in order to produce consistent results for a number of countries. This paper starts with a case study of the impact of BI schemes in the UK and Ireland. It then examines the implications of including more countries. An alternative approach is to build an integrated Europe-wide model, designed specifically to maximise comparability. **See following entry.**

A European Benefit-Tax Model, Holly Sutherland *et al*, Microsimulation Unit Research No. MU/RN20, Department of Applied Economics, University of Cambridge, September 1996, 11pp. **See At Home and Abroad: European Union, A European 'Benefit-Tax' Model.**

Comparative Analysis of Basic Income Proposals: Prospects for the use of national tax-benefit models in five European countries, Tim Callan and Holly Sutherland. Microsimulation Unit Research No. MU/RN21. Department of Applied Economics, University of Cambridge. September 1996, 19 pp.

The differential impact of comparable BI schemes is examined for Ireland (using SWITCH) and the UK (using POLIMOD). An extension of the study to Belgium, France and Italy would be of interest for several reasons. BI schemes have received considerable attention in a number of European countries and have been suggested as the basis for a European-wide safety net (Atkinson A.B., *Incomes and the Welfare State*, Cambridge University Press, 1995, Ch 15).

The future of work, Andrew Britton, Crucible, July-September 1996.10 pp.

An interesting discussion of 'work', what we mean by work, the kinds of work there will be in the future, whether human beings could ever be replaced by machines, the distinction between paid and unpaid work, and the purpose of work. This last, says Andrew Britton, is "to produce something of real value" — a form of service to meet real needs. The Labour Party's Social Justice Commission identified three difficulties with CI: first, that it conflicted with the work ethic; second, that it risked social exclusion by encouraging people to drop out; and third that it would cost too much. Yet despite issues of principle and the problem of cost, CI remains a necessary part of any plan to replace paid work with unpaid work, in line with technological change.

Bills of Health, Richard Lawson, Radcliffe Medical Press, 1996, 288 pp, ISBN 1 85775 101 9, pbk, £17.50.

The author of this book is a general practitioner at Congresbury, near Bristol. His central proposition is that Britain's runaway health budget is partly government inflicted — as a result of deteriorating social conditions. An estimated £5 - £7 billion a year (about one-fifth of the National Health Service clinical budget) is spent trying to heal illness caused by unemployment, poverty, bad housing and environmental pollution. CI is seen as part of the solution, but because an adequate CI would take time to implement, a wage subsidy is recommended as the immediate answer: *allow claimants to take their benefit to work with them when they find socially and environmentally beneficial work.*

Although not spelt out, this proposal looks closer to existing Family Credit and the proposed Earnings Top-Up (**see Parker and Sutherland in CI Bulletin 21**) than to CI, with the added complexity that the work would have to be ecologically acceptable. We hope to include a review of this book in CI Bulletin 24.

A case for basic income: The Dutch social security debate is hotting up, Jan Stroeken, New Economy, Volume 3, Issue 3, Autumn 1996, 5 pp, ISSN 1070 3535. Available from IPPR, 30-32 Southampton St, London WC2E 7RA. **Against the basic instinct: Why basic income proposals will not do the job,** Rick van der Ploeg, New Economy, Volume 3, Issue 4, Winter 1996.

These are important articles, because they are likely to affect attitudes to BI within the British Labour Party. As Robert van der Veen shows elsewhere in this Bulletin, the debate about BI is more widely spread in the Netherlands than the UK. Jan Stroeken and Rick van der Ploeg are well-known commentators. Yet for regular readers of this Bulletin both articles are hard to follow, because both use the terms Basic Income and Negative Income Tax as if they were synonymous. One section of Van der Ploeg's article is headed: Basic Income as a Negative Income Tax and in the accompanying diagram the line of net income (BCD) is kinked, indicating that the marginal tax rate plus benefit withdrawal rate is higher below the break-even level (at which tax paid equals benefit received) than above it. This clearly indicates a NIT, for with BI the tax rates are either flat-rate or increasing.

Using the terms BI and NIT as though they were synonymous causes much confusion. For women in particular, one of BI's main attractions is having one's own, independent income, month by month and year by year, regardless of marital status or other income — just like child benefit. In Britain, we already have a means-tested, work-tested NIT — called Family Credit — and it is one of the main reasons for the poverty trap. Family Credit has to be reclaimed every six months, the unit of assessment is the nuclear family, and capital as well as income are taken into account. Mothers forfeit part of their income if husbands' (or partners') wages go up.

In mainland Europe, especially Germany and the Netherlands, there is at present much interest in what amount to NIT schemes. If the schemes' authors researched the effects on British families (and British taxpayers) of Family Credit, they might lose some of their enthusiasm.

It is to be hoped that EUROMOD (**see At Home and Abroad**) will clarify the debate by stimulating interest in the administrative details of different reform options. In tax-benefit models cutting corners is not permissible!

UBI Newsletter, August 1966, produced by the Manawatu Working Party on the Universal Basic Income, c/o Private Bag 11 042, Palmerston North, New Zealand. Tel (06) 350 6300, Fax (06) 350 6319, e-mail via: di.parson@psa.union.org.nz.

This edition of the UBI Newsletter includes a particularly interesting contribution from Kay Bullock in which she draws attention to Articles 22 - 29 of the Universal Declaration of Human Rights. Article 22: *Everyone, as a member of society, has the right to social security and is entitled to realisation, through national effort and international co-operation and in accordance with the organisation and resources of each state, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.*

Newsletter of the Basic Income European Network (BIEN) No 24, Spring 1996, 22 pp. Published two or three times a year, this newsletter is now available by e-mail. Simply send the message "subscribe bien" to: majordomo@iddzlux.iddszucl.ac.be.

Edited by Philippe van Parijs, each newsletter contains information about past and future events concerning Basic Income, together with up-to-date information on relevant publications. To maintain this flow BIEN depends on BI supporters worldwide, so please contact: Philippe van Parijs, Chaire Hoover, 3 Place Montesquieu, B-1348 Louvain-la-Neuve, Belgium. Fax 32 10 473952., or e-mail as above.

A European Basic Income

Brandon Rhys Williams

The following text constitutes the bulk of the final chapter of a book edited by Hermione Parker on behalf of Sir Brandon Rhys Williams MP, after his death in 1988.[1] *Some of the text is based on pages 18-19 of the working document* ***Economic and Monetary Union: New Approaches*** *submitted by Sir Brandon to the European Parliament Committee on Economic and Monetary Affairs in 1975 (reference PE 41.975). It has lost none of its relevance.*

[Basic Income] is put forward as a viable economic alternative to the residual welfare state; a vision for the future that comes to terms with change; and a tool for restoring sense of community, instead of denying its existence.

Should the *Basic Income Guarantee* (BIG) be limited to Britain? I think not. In 1992 the institutions of the Common Market will take an historic step towards European Union, but for individual citizens of the Member States there is little sense of personal commitment to the ideal of unity. For most of them the Rome Treaty is a matter for governments and institutions which do not concern them. A Basic Income Guarantee that reached out to all the citizens of the Community would change all that. It would give the ideal of Union a real personal significance, because it would become a commitment, and a privilege, expressible in tangible form.

Within each Member State there are well-established systems of social insurance and social assistance (or welfare), with entitlement based on citizenship. The systems have much in common, but the rates of contribution and benefit vary so widely that they affect levels of consumer spending and wage rates in different parts of the Community, and act as barriers to the free movement of workers and their families. One of the steps that has to be taken, on the way to economic and monetary union, is to bring those basic welfare systems into line. A start could be made by having a uniform level of family benefits as a right of European citizenship, above which the Member States would naturally be free to operate social insurance systems of their own.

The opportunity should not be lost for making the redistribution of income at personal level a comprehensible and translucent process. It should be quite clear to every citizen what proportion of his personal income was being taken for the Community's new welfare budget, and where his allowances were drawn from in exchange. If the contributions raised were on a scale proportionate to incomes in each of the Member States, and if the benefits paid were similarly linked, it would be possible to say that the Community had put into effect the principle: *From each according to his capacity, to each according to his need.*

A tax-credit or basic income budget, with personal [income tax] allowances converting into cash, would be a further step forward. In most of the Member States child benefits are paid regardless of the income of the breadwinner or his labour-market status. The commitment to economic and monetary union is only a shadow if it does not include the amalgamation of personal income taxation and social security into a single system embracing young and old alike.

The unit of assessment for the BIs should be the individual. This makes the system easier to administer and completely fair between men and women, married and single. It is also in accordance with the Community principle of equal treatment for men and women in statutory and occupational social security schemes. In October 1987, in a proposal for a Council Directive completing the implementation of that principle, the Commission recommended the promotion of individual entitlement as an alternative to the extension of derived rights, because it would avoid the complexities of marital relationships:

> "The principle of equal treatment requires derived rights to be granted without discrimination on grounds of sex. Nevertheless, it is clear that a breach of the marital relationship could endanger the very existence of derived rights and that for this reason a system of *personal rights* provides better guarantees for the social protection of spouses." (Commission of the European Communities, COM(87) 494 final. 9466/87, page 7.)

Personal rights are what Basic Income schemes are all about. The return of mass long-term unemployment and the breakdown of the traditional family are causing poverty and misery in every Member State. Social insurance is not meeting expectations. Millions are living below the accepted poverty levels. A special advantage of a tax-credit system is that it can act as a subsidy to low wages without destroying the incentive to work. It helps to solve the problem of low wages and unequal living standards. At Community level it could provide an opportunity for regional policy, for it would not only effect a transfer of resources from rich to poor individuals, but would also carry purchasing power outwards from the centres of wealth into the districts, and even into the houses, where incomes are below the average.

A tax-credit or basic income scheme could also contribute to a solution of the difficulties besetting the Common Agricultural Policy. It would raise the living standards of low-income farmers without interfering with the prices of their products. And it would provide individualised benefits for workers with large families.

In Europe as in Britain the New Social Contract must combine the benefits of security and unity afforded to the citizens of communist societies with the personal freedom and self-respect which are the best characteristics of the property-owning democracies. The move to create a democratic European Union can only succeed if the structure of its component elements, in this case the Member States, is healthy and profitable. The successful organisation of free individuals and institutions for the creation of wealth depends crucially on the relationships between human and material resources. It is the human factor that matters most.

Note

1 Brandon Rhys Williams, Hermione Parker (ed.), *Stepping Stones to Independence: National insurance after 1990,* Aberdeen University Press, 1989, 58pp, ISBN 008 0365949.

VIEWPOINT

'Core plus': Towards a more logical welfare structure

Andrew Dobson

This article has been developed from a paper published by the Centre for the Study of Financial Innovation (CSFI) in May 1996.[1] However, it goes further than the earlier piece in looking at potential mechanisms and implementation costs. As used here the term 'welfare' signifies the entitlements a civilised society may feel should be enjoyed by its citizens as a matter of right. These include the provision of health care in all its forms, basic housing, education, some 'underwritten' level of legal aid and a guaranteed Citizen's Income (CI). Few of the components of this paper are original, but they have not yet been strung together coherently.

The two layers of welfare

In most advanced economies the range of goods, services and transfer payments generally known as welfare is approaching crisis point, due to the accumulation of pragmatic adjustments over the years. In the UK these have left a structure so riddled with contradictions that it is inefficient and ineffective in delivering its (wholly desirable) objectives. The central mess seems to be the tear-away cost of unrestrained expectations, and the response (unevenly applied targeting) is making matters worse by creating real-factor inefficiencies. For the targeting has been unevenly applied — some benefits are means-tested, others are not — and when combined with income tax and National Insurance contribution it produces marginal tax and benefit withdrawal rates of 97% at quite low levels of income.

It will be argued here that the real costs of a conditional structure far outweigh the real costs of universal benefits (at a modest level), which are only made to look higher by the fallacious results of Government accounting conventions.

Welfare is in crisis because the costs of meeting expectations — many taken for granted — threaten to swamp the economies supporting them. Examples include Medicare in the United States; European unfunded pension liabilities; and the pernicious effects of rising 'dole' expectations in recessionary economies. It would be preferable to provide a universal, unconditional safety net for each member of society, while continuing to encourage voluntary better-than-basic provision. This would result in a more effective and efficient use of resources, and a better *utilitarian* outcome, with benefit take-up focused on what beneficiaries actually want.

This approach distinguishes two layers of welfare, 'core' and 'additional', where the *core* takes care of the morally obligatory, universal safety net, and market forces work to keep the demand for/expectation of higher benefits in line with economic reality:

- *Core welfare* consists of universal, unconditional minimum provision for all citizens, at a level set by the political process and sufficient to satisfy society's sense of national conscience and obligation — or its sense of pragmatic necessity, depending on your approach.
- *Additional welfare* facilitates but does not subsidise provision by citizens for themselves — at their own expense — of whatever additional quantity or quality of provision they desire and can afford.

Core welfare

This includes health care, education, housing and the opportunity to purchase a pension — as well as a CI. The package would be universal, unconditional, state-funded, and delivered through a system of *limited-transferability* vouchers — the idea being to allow individuals to shop around for the precise form in which they take up their core entitlement — and thereby develop a greater awareness of its cost.

Limited transferability means that the vouchers must be used for the welfare purpose for which they are issued. However, within that purpose they could be used to purchase insurance from an approved private sector underwriter or from the state, or as an entry-level contribution to a plan which, with additional voluntary contributions, would provide additional welfare cover. Because the core would include a Citizen's Income, all other income would count as taxable income.

The level of the core provision would of course be a matter of much debate — and would properly be at the centre of the political process for resolving conflicting interests. For the sake of argument, let's suggest that it be set at the same level as today's conditional benefits — with everyone receiving a health insurance voucher sufficient to purchase National Health Service standard health-care (no frills or special amenities), a state education voucher for children (available as a credit for non-state school fees if desired), plus a small CI. The value of the vouchers could vary according to individual circumstances: mental or physical handicap could justify a more comprehensive health voucher, or a higher level of CI, because the chances of employment are reduced.

Additional welfare

All citizens would be able to supplement their 'core' provision through privately underwritten insurance or programmed savings. For example each individual might be free to start a *Personal Welfare Plan* (PWP), which would act as a pool for the accumulation of savings, and a reservoir from which to meet welfare expenses (cf 'deductibles' or 'excess' on insurance policies) — very much in the way that a personal pension fund operates at present. Withdrawals from the PWP would be subject to qualifications as to their purpose (just as withdrawals from pension funds are at present). The difference would be that the PWP would be available to meet a much wider range of needs than just the pension; and accordingly should start to attract voluntary savings from an earlier age. Contributions could include cash payments and vouchers from the state-funded Core.

A properly structured PWP would work as a savings fund operating in tandem with a series of insurance policies, and possibly other savings instruments as well — for instance the accumulation of wealth in housing. The PWP would also act as a 'pool' of savings, to be used to fund the 'deductible' (or 'excess') of first loss excluded from most insurance policies. Having a larger 'deductible' radically reduces the cost of insurance, in many instances. Together, the PWP and other savings would provide directly for the high-probability events of life — retirement, health care in old age and so forth. The insurance policies would provide for the low probability, high multiple payment events — where insurance is at its most efficient — such as unemployment and serious illness.

Advantages

The advantages of such an arrangement include the following:

- *It clarifies the purposes of state-financed welfare*, as a universal safety net (the 'core'), not a universal entitlement to 'comfort'. The cost of the universal provision becomes clearer, as does the cut-off point between the universal, state-funded 'core' and the voluntary, privately funded additional benefits. By including everyone in the core, the tendency for resentment between receivers and subscribers would be materially defused.

- *It brings awareness of benefit costs to the point of consumption:* by allowing beneficiaries to decide how to use their vouchers, thereby addressing the problem of 'unlimited expectations', which sometimes seems to cloud issues of health care and education.

- *It brings greater choice and consumer control to benefit take-up* : by allowing consumers to decide the form in which they want to receive their entitlement, instead of having it largely imposed upon them.

- *It removes the immense real-resource wastefulness of conditional benefits:* the unemployment and poverty traps, policing costs, and benefit fraud.

- *It removes the polarisation of 'either state or private' structures* for education, health care, additional pension provision etc.

Introduction of a small CI should have the important consequence of re-opening a middle ground of *'core plus a bit'* provision, which at present is almost non-existent. To 'go private' currently means foregoing all the benefit the state would otherwise provide, and which taxpayers have already paid for. Because current arrangements mean that you have to pay the entire cost of private provision, much potential dedication of private resources to these areas is being missed. This contributes to a polarisation between the users of state provision, who cannot afford the quantum leap to private provision, and the users of private health care and education, who resent loss of the health and education components of the tax they have paid. A structure in which the state voucher is universal, and any private provision is incremental to it, removes such grounds for resentment.

Savings stored in a PWP could be used in tandem with the current greatest item of most people's lifetime savings — their home, with the mortgage repaid. Currently, it seems almost inevitable that old-age health care will increasingly be provided by some form of 'home equity release' or 'home income' arrangement. These have a deservedly bad reputation, due to poor offerings in the 1980s (some people found their security of tenure in their homes threatened). But properly structured and combined with a pool of savings such as a PWP — thereby relieving some of the pressure from the value asked from the house — the mortgage-redeemed home could provide a genuine addition to the combination of 'career savings funding retirement welfare'.

The mess we're in

Currently, access to Britain's National Health Service and to state primary and secondary education is free of charge, but if you choose private health or private education you sacrifice your state subsidy. Tertiary education is universal for tuition, but means-tested for maintenance. Council housing is partly conditional (not means-tested as such, but with prioritised waiting lists). Housing benefit is fully conditional on income and assets. Legal aid is increasingly conditional and pretty arbitrary as well, with a large swathe of middle Britain excluded from it. Receipt of the state basic pension depends on contribution record, while the state earnings-related pension (Serps) has become voluntary, in that workers can opt out of the contributions as well as the benefit. Jobseeker's allowance, Income Support and Family Credit are rigorously means-tested.

This is the 'mess'. Some benefits are already universal. Others are 'compulsory pay, voluntary take-up'. Others again are strictly conditional. The problems it creates — of extremely high *de facto* taxation-plus-benefit withdrawal rates at quite low levels of income — are well recognised and are called the *poverty trap*. The dilemma as perceived by many people — and most governments — is that it would cost too much to sort out. There are, however, grounds for thinking that this is a serious misconception. Certainly there are costs in removing conditionality, but these costs are almost all 'accounting numbers'. If you look behind the numbers, at what is happening to real motivations and rewards and to the mobilisation of real resources, the effects are very different.

Remove the conditionality from basic citizenship entitlements and you indeed increase the cash amounts flowing through the public accounts by a material amount. But so long as the increase consists solely of transfer payments as a result of which the *incremental beneficiaries* and *incremental taxpayers* are the same people, *without any de facto loss of discretion over how those monies are to be deployed,* there is no real diversion of spending decisions to the state. Circular transfer payments, without loss of discretion to payer or recipient, do little if any damage to free market principles — nor do they inflict net cost in any meaningful sense.

Suppose that a Basic Income were devised which by some miracle had the effect of leaving all social security benefit claimants at exactly their current income levels, while non-claimants received a similar level of cash benefit (the

BI), which they paid for through tax increments that miraculously equalled their BIs. Although the monies flowing through the public accounts would have become bigger, aggregate spending power would have changed not one jot, because all the incremental flows would be circular. They are an accounting increase, not a change in real resource consumption.[2]

Of course, such exact neutrality is unlikely in practice. But the principle of broad neutrality for payee and payer communities seems realistic enough.

Question: What is the point of such circular payments?

Answer: Removal of conditionality in core benefits.

Question: Why should this matter ?

Answer: Because conditional benefits (or more precisely the withdrawal of benefits when the conditions pertaining to them are no longer met) imposes enormous real costs on the economy, in the form of excessive tax plus benefit-withdrawal disincentives for the lower paid; in administrative costs to try and prevent cheating; and in the corrosion of social integrity.

A more reliable analysis of the cost / benefit implications of universal core provision would run as shown in the Table below. Note the essential circularity of the 'cost'. The incremental payees would also be the incremental payers, so there would be no overall loss of discretion, wealth or anything else. Note also that the change in consumption of real resources — rather than 'public money' — may be negligible, since private consumption is already using the same 'first step' health-care and education components. The change is how they are paid for, not (yet) how much is consumed.

Cost - benefit analysis of a Citizen's Income

Costs

- Gross cost of the proposed CIs
  less cost of existing benefits
  less cost of income tax allowances
  and reliefs which the CIs replace
- Costs of core health care and education, for those currently opting out of the NHS and state schools, but still paying for them through their taxes

Benefits

- Engagement of productive energies of those caught in the poverty and unemployment traps
- Removal of need for a minimum wage
- Removal of need for income tax allowances
- Savings on administration
- Savings on unquantifiable costs when social integrity is corroded

The technology which already produces 'smart cards' or 'plastic cash' would surely be able to provide mechanisms for providing each individual with one (and only one) access to the benefits personal to him or her — and thus reduce the corrosion cost (moral as well as financial) of welfare fraud, and the cost of policing it.

How to get there: Bang or Creep?

Such ideas imply radical change and attract the question: *Is it possible to get from here to there, and if so how?* The answer (probably) is: *Yes, it is possible — if you want it strongly enough — and there are two ways to get there: 'bang' or 'creep'.*

These days it is conventional to believe that *bang* is bad or impossibly disruptive, therefore *creep* is the only realistic approach. Perhaps the proposition should be that once objectives are agreed, a progressive approach may be desirable. However, where there is a particular wall to overcome, a quantum leap should not be ruled out.

The overall change must be decomposed into a series of individual steps, each making progress towards the end objective, and facilitating a subsequent step. If each small step can be sold on its own merits, while conforming to the overall plan, then so much the better.

Remarkably, a number of steps that fit in with a gradualist approach seem to be already in hand or under consideration. Vouchers for core welfare have been canvassed and are being introduced for nursery education. Combinations of private payments and NHS provision have been argued for – the objective being to get more resources into health care, never mind whether they are called private or public.

Core plus

I have tried to present a coherent vision of how evolving needs and social conscience, together with the types of financial instruments currently available, can be reconciled with the twin objectives of poverty prevention (society's budget) and improved living standards — especially during periods when people's expectations exceed their income, for instance during ill-health, unemployment, child-rearing and old age.

After some 25 years working in a senior capacity in the Capital Markets divisions of some of the world's largest banks, Andrew Dobson is currently working as a consultant, helping to develop capital markets in the former Soviet Union. A longer version of this article is available from Citizen's Income Trust.

References:

1 Andrew Dobson, *Welfare: A radical rethink — the Personal Welfare Plan,* Centre for the Study of Financial Innovation (CSFI), 18 Curzon Street, London W1Y 7AD, 13pp, £25, discounts available.

2 Christopher Monckton, *Universal benefit,* Citizen's Income Bulletin No. 16, July 1993, Citizen's Income Study Centre, St Philips Building, Sheffield Street, London WC2A 2EX.

Citizen's Income Bulletin Back Numbers

Until July 1993 the Bulletin was called the Basic Income Research Group or BIRG Bulletin. All the Bulletins listed below are in the current A4 style, and most are available from The Citizen's Income Study Centre, St Phillips Building, Sheffield Street, London WC2A 2EX. In addition to the articles listed here, each Bulletin includes details of relevant events at home and abroad, book lists and book reviews.

Bulletin No 3, Spring 1985

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

Bulletin No 4, Autumn 1985

- *Out of touch: The Fowler reforms of social security,* Robert Morley
- *The debate about costing,* Hermione Parker
- *Basic Income and young people,* BIRG Youth Group
- *VIEWPOINT: A two-tier Basic Income and a national minimum wage,* Robin Smail

Bulletin No 5, Spring 1986

- *Social security, taxation and family financial arrangements,* Jan Pahl
- *Basic Incomes, some practical considerations,* Philip Vince
- *Public support for families with children: a study in British politics,* Sir John Walley
- *Cash and caring,* R.A.B. Leaper
- *VIEWPOINT: Realistic radicalism,* Malcolm Torry

Bulletin No 6, Autumn 1986
(photocopies only available):

- *A Basic Income for youth,* Paul Lewis
- *Basic Incomes and elderly people,* BIRG Elderly Group
- Safeguarding social security in the Netherlands, Jos Dekkers
- *Poverty and Adequacy,* Anne Miller
- *Letter from Andrew Brown*
- *The case for a guaranteed income in France,* Bruno Couder
- *Childminding costs,* Sue Owen
- *Journey-to-work costs,* Martin J.H. Mogridge
- *VIEWPOINT: Service Credits: a new currency,* Edgar Cahn

Bulletin No 7, Spring 1988

- *What are Basic Incomes ?* Bill Jordan
- *Are Basic Incomes feasible?* Hermione Parker
- *Alternatives to Basic Income,* Fran Bennett
- *The implications of BI for people with disabilities,* BIRG Disability Working Group
- *Removal of private pension tax reliefs: viewpoint from an actuary,* Geraldine Kaye
- *Mutual responsibility,* Malcolm Torry
- *VIEWPOINT: Towards an income and work guarantee,* Peter Ashby

Bulletin No 8, Autumn 1988

- *Defining Basic Income,* Tony Walter
- *Administration of integrated tax / benefit systems,* Hermione Parker and Andrew Dilnot
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- *Analysis of a partial Basic Income,* Tony Atkinson and Holly Sutherland
- *A European guaranteed Basic Income system?* Nel van Dijk
- *VIEWPOINT: 'If any would not work, neither should he eat',* James Robertson

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- *Existence income and activity income,* Henri Guitton
- *Can it happen?* Susan Raven talks to Frank Field MP, Archy Kirkwood MP and the Rt Hon David Howell MP
- *Denmark's Basic Pension,* Adam Trier
- *Proposals for a Basic Income in the Republic of Ireland,* Chris O'Malley MEP
- *VIEWPOINT: A place at the board,* Kevin Donnelly

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- *Topsy-turvy nationalisation,* James Meade
- *Breaking the poverty trap: a Basic Income,* Paddy Ashdown MP
- *Proposals for a guaranteed minimum income in Italy,* Maria Luisa Mirabile
- *Citizenship, Basic Income and democracy,* David Purdy
- *Pensions, taxes and welfare,* T.A. Salter
- *VIEWPOINT: Basic Income: value or price?* Conall Boyle

Bulletin No 11, July 1990

- *The Third Age,* Charles Handy
- *The Poverty Trap: poor people's accounts,* Bill Jordan with Simon James
- *Basic Income: alternative benefit or new paradigm,* Joop Roebroek and Eric Hoogenboom
- *Can it happen?* Susan Raven talks to Sally Greengross and Sue Slipman
- *Getting paid for doing nothing: plain justice or ignominy?* Philippe van Parijs
- *Citizen's Income,* Philip Vince
- *VIEWPOINT: Basic Incomes and industrial development,* Victor Oubridge

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- *How much is enough?* Jonathan Bradshaw
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- *Can a BI-type scheme be made affordable?* Steven Webb
- *Australia: arguments for Basic Income in a poor-law welfare state,* Peter Travers
- *VIEWPOINT: The rights of children - a justification of Basic Income, hitherto unremarked,* Maire Mullarney

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- *Basic Income in the new Europe,* James Meade
- *Child Benefit, Child Tax Allowances and Basic Incomes,* Hermione Parker and Holly Sutherland
- *Can it Happen?* Susan Raven talks to Sir Ralf Dahrendorf
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- *Basic Incomes, democracy and the labour market,* Georg Vobruba
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- *Make it BIG,* Meghnad Desai
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- *Social security in Greece,* Gabriel Amitsis
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- *How claimants react to BI,* Rik van Berkel and Theo Hindriks
- *VIEWPOINT: Left out: The Labour Party and Basic Income,* Kevin Donnelly

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- *Universal benefit,* Christopher Monckton
- *Participation income,* Tony Atkinson
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- *Basic Income in Spain?* Luis Ayala
- *Citizen Capital,* Berry Hayward
- *VIEWPOINT: Citizen's Income and the Trade Unions,* Richard Exell

Bulletin No 17, January 1994

- *What's Left? Thomas Paine and Citizen's Income,* Stephen Quilley
- *Citizen's Income,* Hermione Parker
- *Labour's Social Justice Commission,* Susan Raven talks to Sir Gordon Borrie
- *From insertion income to existence income,* Chantal Euzéby
- *Basic Income as Trade Union policy,* Rik van Berkel
- *How much is enough? CI and family budget standards,* Autumn Yu
- *VIEWPOINT: Thinking straight about benefits,* John Robson

Bulletin No 18, July 1994

- *Basic Income 1994: Redistributive effects of transitional BIs,* Hermione Parker and Holly Sutherland
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- *The root cause of high public spending is poverty,* Richard Clements
- *VIEWPOINT: For Citizen's Income read Citizen's Investment,* Charles Handy

Bulletin No 19, February 1995

- *Director's View : Opportunities scuppered, hijacked, missed . . .* Richard Clements
- *Guaranteed minimum income in Brazil?* Eduardo Matarazzo Suplicy
- *Borrie is no Beveridge: Citizen's Income now!* Meghnad Desai
- *Every citizen a rentier,* Dominic Hobson and Alan Duncan MP
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- *Why a £20 CI is better than lowering income tax to 20%,* Hermione Parker and Holly Sutherland
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- *Citizen's Income and families,* Richard Whitfield
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- *Gearing up for the next general election,* Richard Clements
- *Basic Income in Ireland,* John Baker
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- *Citizens' pensions and women,* Jay Ginn
- *Obituary: James Meade,* Tony Atkinson
- *VIEWPOINT : Thoughts from Wythenshawe,* Abigail Thomas

Bulletin No 22, July 1996

- *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 Lawrence
- *BI for intermediates,* Hermione Parker and Susan Raven
- *What kinds of people do we wish to be?* Fred Twine
- *Obituary: Stanley Booth-Clibborn,* Anne Miller
- *VIEWPOINT, Trickle Up . . . ,* Hans Breitenbach

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, is obtainable from this office. Some articles trace the CI debate in other member States of the European Union, and elsewhere in the world. In some cases only photocopies of particular issues are available.

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