FOCUS ON IRELAND

CITIZEN'S INCOME

BULLETIN 24

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> *The toll that poverty exacts on family and community life is incalculable. Poverty is not just about inadequate income, it is about being excluded from the mainstream, from what society takes for granted.*

Mary Robinson, President of Ireland, September 1996

CITIZEN'S INCOME DEFINED

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Regardless of age, sex, race, creed, labour-market or marital status
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Unconditionally

INDEPENDENCE

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CIRG took over the functions of BIRG (Basic Income Research Group when the Trust changed its name in 1992.

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CITIZEN'S INCOME BULLETIN

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Editorial

In Britain since 3rd May there is a new (Labour) Government with an unprecedentedly high Parliamentary majority, yet for some of those who voted them into office the euphoria has already vanished. At grass roots level, Tony Blair's governance appears as authoritarian as Lady Thatcher's and, as before, the solutions offered are more redolent of 'sticks' than 'carrots'. On the other hand, since May, Citizen's Income Trust (CIT) has been able to re-establish contact with the Department of Social Security after a gap of many years.

On personal taxation and social security there is much uncertainty. Towards the end of May it was announced that Martin Taylor, chief executive of the Barclays banking group, had been appointed to head a task force aimed at streamlining the tax and benefits system, increasing work incentives, reducing poverty and welfare dependency and 'strengthening community and family life'. The enquiry is expected to last about a year — in the meantime policy continues to be made on the hoof.

The question for readers of this Bulletin is the extent to which the review team (composed entirely of civil servants) will look at CI, or more specifically at the variant of it called Basic Income (BI).[1] The introduction of BI, financed by abolishing all the personal income tax allowances and some or all income tax reliefs, would almost certainly require a willingness on the part of the Treasury to change its accounting procedures. Otherwise the change would show up in the public accounts as a massive increase in public expenditure, even if the Public Sector Borrowing Requirement were unaffected.

This is a major issue.[2] Anyone with an ounce of intelligence can see that it makes little immediate difference to government borrowing whether Mr/Ms Smith gets £25 a week in the form of an income tax allowance, or £25 a week in the form of a BI payable on the basis of legal residence (like child benefit). The difference to the individual is that if s/he has no income to set against a tax allowance, or insufficient income to make full use of it, then the tax allowance is worthless or partially so — whereas for people on low incomes a Basic Income would convert automatically from a tax deduction into a cash credit. Yes, the Treasury would lose out because take-up would increase, but they would also gain from savings on existing social security benefits.

By comparison with income tax allowances, a BI system would give individuals greater control over their lives — to do paid or unpaid work, to study, to train, to care for their children, or to care for relatives — without having to contend with bureaucratic red tape, without being accused of fraud and without forfeiting their right to a decent pension in old age. Unfortunately, so long as the world's Finance Ministers persist with the orthodoxy that work means paid work, it is going to be extremely difficult to persuade governments (any government) of CI's merits.

It is a change, however, which will have to come. Women's liberation has seen to that. The alternative is the prospect of societies riven between work-rich (two-earner) and work-poor (no-earner) households — with implications for their children which are a cause of increasing concern.

The immediate costs of CI need to be measured against its longer-term advantages, some of which, like stronger families, are hard to quantify but extremely important. In Britain much will depend on the outcome of the Martin Taylor Enquiry and it is to be hoped that its members will avoid the error of confusing Basic Income with Negative Income Tax. One way to assess BI would be through pilot projects, as proposed by Professor A.B. Atkinson in Amsterdam **see p 23).**

From recent events, it looks as though Ireland could become a testing ground for CI. In recent years Ireland has become the 'Taiwan' of the European Union, yet poverty remains much as before. Too many people are beyond the pale of conventional social security systems — and when the systems do reach out to them they trap them in long-term benefit dependency.

At the launch last April of *Pathways to a Basic Income,* published by the Conference of Religious of Ireland (CORI), many people drew attention to this paradox. The time has come, said historian Joe Lee of University College, Cork for governments to accept the inevitability of technological and labour market change and adapt to it: "The assumption that we can freeze our structures of income distribution and our ways of rewarding work, while so much else in the world of work changes, is a recipe for both social conflict and economic inefficiency" **(see p 8).**

While CORI advocates a CI of £70 a week, the Council of Churches for Britain and Ireland (CCBI), is hesitant **(see p 5).** They are not against CI, neither are they for it. Like Tony Blair and Lady Thatcher, they cling to the words of St. Paul: *Those who will not work shall not eat.* What makes their position extraordinary is that CCBI includes the Roman Catholic Church in Ireland.

Finally a word about the European Commission. In Bulletin 23 we drew attention to the Final Report on the Lund Carrefour, published by the Forward Studies Unit of the European Commission: "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". In the report of a conference in Dublin *Beyond Equal Treatment,* co-hosted by the Department of Social Welfare and the European Commission, one of the conclusions drawn is the need for further research on Basic Income **(see p 24).**

By comparison with 1984, when the Basic Income Research Group was formed, huge progress has been made.

References

1 The term Citizen's Income is used here as the generic for a wide range of proposals, including Basic Income, Participation Income, Social Dividend, and Negative Income Tax. See Hermione Parker, *Citizen's Income*, Citizen's Income Bulletin No. 17, January 1994.

2 Christopher Monckton, *Universal Benefit*, Citizen's Income Bulletin No. 16, July 1993.

Citizenship, employability and the labour market

Raymond Plant

Britain's new Labour government takes the view that poverty can be eliminated through tougher implementation of existing social security regulations combined with more active labour market policies — an approach which Lord Plant regards as incomplete.

Britain's new government and the European Union (EU) are now putting a great deal of emphasis on the labour market as the main instrument of social inclusion. It is argued that work and access to work are the best routes out of poverty and towards the integration of deprived groups into mainsteam society.

This requires a twin-track approach:

- *The creation of more flexible labour markets*: to create more jobs, in the context of a global economy where we are competing with other countries which already have flexible markets.
- *More emphasis on employability*: namely, the equipping of individuals with the skills they need both when they leave the educational system and through life-long learning, to make them employable in these rapidly changing markets.

In flexible labour markets jobs for life will disappear and individuals will need the skills necessary to change from one job to another throughout their working lives.

This approach, which is likely to transform education and labour market policy-making over the next few years, places the onus for overcoming social exclusion partly on the individual being prepared to undertake skills training, partly on the government making sure that the educational system and life-long learning actually equip people for the changing labour market, and partly on the labour market itself creating the jobs necessary to provide this pathway out of poverty and into mainstream society.

In this sense we might describe what is happening as a shift from social citizenship as a basic status (with integration being a matter of having the resources necessary to be a citizen secured to each individual by the political community) towards an approach to social citizenship, which is more achievement-orientated.

As far as social citizenship is concerned, it used to be seen as a primary task of government to secure citizenship to all in terms of rights to certain sorts of general social goods — health, education, welfare etc. — which were to be secured to individuals as a basic right of citizenship. Furthermore, in terms of a good deal of this provision, it was to be secured outside the vagaries of the market. Obviously, a citizen's income (CI) guarantee, particularly if it were to be seen as unconditional, fits into this understanding of the social rights of citizenship extremely well.

The alternative view which is now emerging sees social inclusion — the word citizenship is not much used by those advocating this agenda — much more as a matter which the individual has to achieve for him or herself, within a general framework of education and labour market policy, to be set by the State. In this sense it might therefore be thought to embody a shift in thinking about social inclusion, from one based on citizenship, status and rights, to one based on obligation and achievement.

How did it happen?

The reasons for this shift are fourfold and in the space of this short article I can do no more than list them.

1 **The dominance of self interest.** This is the view that individuals are self-interested, therefore to have unconditional rights to resources is likely to mean that in particular circumstances individuals will behave in such a way as to maximise their utilities, if they can secure such unconditional benefits. Hence the arguments about the current system encouraging parenthood outside marriage, because unmarried mothers can secure housing and other benefits without having to work.

2 **Free-loaders.** There is also the argument about free-loading. Benefits are funded from taxes paid by those in work, often in low paid jobs. The able-bodied who could work, but choose a life on benefit because of the incentive structure of benefits (see 1 above), or because of weak sanctions against them, are taking an unfair advantage. On this view the rights/status approach to citizenship neglects the fact that society has to involve reciprocity and those who are prepared only to take the benefits are free-loading on the backs of others.

3 **Dependency culture.** Defenders of the changes argue that the social rights of citizenship approach creates dependency. Far from securing to individuals an independent, autonomous life, the social rights approach is said to have created a culture of dependency and led claimants to live undisciplined and apathetic lives, because they are cut off from the labour market. Whether we like it or not, it is argued that dignity and self-respect come through the labour market and cannot be secured through political or administrative devices such as unconditional rights.

4 **CI will never be sufficient.** Even if the social rights approach were philosophically sustainable, its critics will argue that because of the lack of reciprocity a Citizen's Income would never be funded at levels sufficient to mean that the beneficiary is immune to poverty. Taxpayers will not be prepared to pay taxes to fund CIs to the able-bodied at a level sufficient to integrate them into society. Hence, in practice, the claim that social rights can integrate citizens into the community via benefits would be undermined by the actual level of benefits taxpayers will be prepared to fund.

It seems to me that if these arguments are accepted — and I have quite strong reservations about some of them — a further piece of the jigsaw has to be put in place. If the labour market and employability are the only acceptable routes out of poverty towards a more socially integrated society, what is to be done if the labour market does not produce the jobs?

The whole approach requires great optimism about the capacity of the market to produce jobs, if we are to have this quite profound switch. If the market does not produce enough jobs to match the need, then the logic of a policy which sees inclusion and human dignity being secured by work for wages is that the state should become the employer of last resort.

This would then bring us back full circle, in that social inclusion would have to be a basic responsibility of the state: not, however, by paying a CI or in terms of citizens' rights, but rather through the state providing employment as part of its fulfilment of what follows from an achievement- and obligation-based view of citizenship. The costs of this may well lead to a reconsideration of the case for CI, which has been somewhat eclipsed by the 'obligation and achievement' view of citizenship now dominant in the government's thinking about social policy.

Professor Lord Plant is Master of St Catherine's College, Oxford, and a Labour Peer.

Just as science and technology took us from agrarian to industrial life, so information technology will take, is taking us, to a new era in which manufacturing labour withers away. The challenge is political — how to effect a parallel transformation in our arrangements for the distribution of income from its traditional basis in property and paid employment to a new basis in citizenship.

Professor A.H. Halsey, April 1997

Basic Income system has merit for Ireland

Garret FitzGerald

The following article, included here by courtesy of the author, appeared in The Irish Times, 12 April 1997, and is reprinted here with their permission. Although the detail of the article refers to Ireland, similar comments would be appropriate in most member States of the European Union.

The income tax and social welfare systems which have developed in an uncoordinated way over the past century as a means of redistributing income are seriously defective in a number of important respects.

First of all, both income tax and social welfare are unbelievably complicated, absorbing a huge amount of time and energy, not just on the part of the public service administering it, but also in the wider community.

Second, the lack of coordination between the two arms of the system has led to the emergence of endless 'poverty traps', situations in which individuals may find that if their employer increases their pay their post-tax income actually falls, or in which many unemployed people cannot afford to take a job because if they went back to work they would be much worse off.

And, third, the tax system is extremely inflexible: for example, there seems to be simply no way in which income tax concessions can be effectively targeted at the lower-paid.

It was in recognition of these deficiencies that in 1985, as Taoiseach,[1] I asked my economic adviser, Dr Patrick Honohan, to investigate, in conjunction with the Department of Finance, the practicability of substituting for this unholy mess a simple basic income system.

Patrick Honohan's study (published in the Spring 1987 issue of *Administration* [2]) showed that such a system could be introduced, but it also showed that in the circumstances of that time such a system would have required the introduction of a marginal tax rate of 65% to 70% over a wide range of incomes.

The basic income idea surfaced again some years ago in the context of the annual conferences on social policy organised by the Justice Commission of the Conference of Religious Institutions (CORI), which are attended by economists and politicians as well as by people involved in social policy and administration.

The energy and enthusiasm of the Directors of CORI's Justice Office, Father Seán Healy and Sister Bridget Reynolds, has now brought this issue back into the public forum. They commissioned two economists, Charles Clark and John Healy, to carry out a detailed study of whether and how such a system might be introduced during a period of rapid economic growth such as we are currently experiencing, a period in which the Government is able to commit itself in advance to £1 billion in tax reliefs over a three-year period.

In the course of the recent negotiation of Partnership 2000, CORI persuaded the Government to agree to a further independent appraisal of the concept of a basic income payment to all citizens, this appraisal to be overseen by a broadly-based steering group.

To many people the idea of everyone receiving a basic income through the medium of the State may seem at first sight utopian, perhaps even absurd. But what we tend to forget is that most people already do receive the equivalent of such payments in one form or another, either through the tax or the social welfare system.

Thus about one million adults benefit from social welfare payments; more than one million children receive child benefit; and more than one million income-tax payers benefit from personal tax allowances which, in the case of the two-fifths of taxpayers currently on the 48 per cent rate, is the equivalent of a State payment of £1,424 per annum, or £27.50 per week. In fact only a small minority of people do not receive some kind of basic allowance through either the tax or social welfare systems.

The question, therefore, is not whether such payments are feasible, but rather whether a standardisation of the existing payments and an extension of them to the one-seventh of the population who are at present excluded could be substituted for the present incoherent system, without undue disruption or excessive costs. And could this be done on a scale that would ensure that those dependent on social welfare would be at least as well catered for as at present?

The Clark/Healy study, published last Monday, makes a major contribution to the clarification of these questions.[3] It shows that in present conditions the substitution of a basic income for our income tax and social welfare systems could be achieved on the basis of a tax rate of between 44 per cent and 50 per cent, from which the basic income itself would be exempt.

While a 44 per cent tax rate would provide an adult basic income payment of £60 per week, this would be less than the present level of adult social welfare payments. Realistically, therefore, a payment of £70 per week would be desirable, and this would involve a 48 per cent tax rate on other income — which is a much lower marginal tax rate than the 65 per cent to 70 per cent which a decade ago was estimated to be necessary in respect of a wide range of incomes.

Many people whose current marginal tax rate is 30.5 per cent (26 per cent tax plus 4.5 per cent pay-related social insurance/ PRSI) could look askance at an average and marginal tax rate of 48 per cent on their earned income. But although the tax rate payable by these people would be higher than now, their *total* tax bill would be lower, in most cases by a substantial amount.

Of course, any radical change of this kind in the tax and social welfare system must necessarily involve losers as well as gainers. However, by spreading the transition over three years, during which, on the Government's present estimates, some £900 million will be available for income tax reform, it would be possible to minimise the numbers who would actually lose.

But the number who would actually be worse off at the end of the period than at the beginning might be quite small. These would tend to be concentrated in the top 10 per cent of earners, and, for what it is worth, their marginal tax rate, the share taken in taxation and PRSI out of each additional pound earned by these higher income PAYE taxpayers, would be reduced by almost one-tenth, from 52.5 per cent to 48 per cent.

The advantages of a shift to a basic income system would be considerable. Because all income over and above the basic income payments would incur the same tax rate, the tax system would be greatly simplified. Because the amount of basic income payments would be determined solely by the age of recipients, all the paraphernalia of means-testing would disappear, as would the, somewhat notional, job-seeking requirement for the payment of unemployment benefit and assistance.

These simplifications of the system would involve major savings in administrative costs, savings that might well go beyond the halving of these costs that has been provided for in this basic income costing.

Next, the disappearance of all the poverty traps and obstacles to unemployed people seeking work, and the elimination of a good part of the rationale for the black economy, would be major advances.

Finally, the proposed basic income system would significantly improve the balance of income distribution between rich and poor, in a manner that is almost impossible to achieve through the existing tax and welfare structures.

However, the obstacles to such a radical change are formidable. Such major changes always evoke a negative response from those who fear they may lose by them. Next, this proposal would involve the disappearance of the social insurance system, to which many people are strongly attached. And a public service which has such a huge investment in the existing dual tax-cum-welfare system may be reluctant to go along with its disappearance.

Nevertheless, the CORI proposal puts this issue squarely before the public for the first time, providing a concrete model upon which the Government's proposed independent appraisal can now focus. This is a remarkable and strikingly constructive contribution by a religious organisation to the future development of Irish society.

Garret FitzGerald was Taoiseach (Prime Minister of Ireland) from June 1981 to March 1982 and from 1982 to 1987.

Notes and references

1 Prime Minister of Ireland

2 Patrick Honohan, *A Radical Reform of Social Welfare and Income Tax in the Republic of Ireland: Evaluated,* article in *Administration*, Vol 35, No. 1, 1987.

See also Rosheen Callender: *Basic Income in Ireland: The debate so far,* BIRG Bulletin No. 9, Spring/Summer 1989.

3 Charles M.A. Clark, John Healy, *Pathways to a basic income,* Justice Commission, CORI, Milltown Park, Dublin 6, April 1997.

Unemployment and the future of work

Andrew Britton

In 1995 a working party was set up, under the auspices of the Council of Churches for Britain and Ireland (CCBI), to conduct an enquiry into unemployment and the future of work. The member churches of the council are all the major Christian denominations of England, Wales, Scotland and Ireland, including the Roman Catholics, the Anglicans and most of the free churches. The sponsoring body for the enquiry includes representatives of 12 denominations and is chaired by the Rt. Rev. David Sheppard (Anglican Bishop of Liverpool). The 16 members of the working party were chosen for their experience and expertise in industry, trade unions, social policy, economics, politics, theology and industrial missions.

Despite the recent fall in the numbers claiming unemployment benefit (to about 6 per cent of the labour force) the underlying situation in the British labour market is still a cause of serious concern, not least because of the quality of the new jobs being created. The churches in Britain and Ireland have been active for many years both in offering direct help to those suffering from poverty and joblessness and in drawing public attention to their plight.

The report of the Churches' Enquiry into unemployment and the future of work[1] was published on 8th April, just as Britain's general election campaign was gathering pace. As a result it attracted a great deal of attention, for example:

> 'Churches slate all parties', *The Guardian*.
>
> 'Politicians damned', *The Express*.
>
> 'Preachers of social justice are voices crying in the wilderness', Anthony Howard in *The Times*.
>
> 'How dare this smug bishop tell me I am not a real Christian', William Oddie in *The Mail*.
>
> 'The churches have avoided obvious clangers', *The Economist*.

Now that the election is out of the way I hope that the report will be discussed and debated in a more considered way. Already, at the various meetings I have addressed since its publication, it has attracted much thoughtful comment.

Work is the key

Its message is simple enough. The divisions in society are getting deeper — between the rich and the poor, between those who can benefit from the opportunities of change and competition and those who are exploited or marginalised. Those of us on the Enquiry believe that the only solution to this very serious situation is to ensure that there is enough good work for everyone to do. In the words of a letter from the Irish Catholic bishops, "Work is the Key".

No one should be told that their contribution is not wanted — no-one should feel that work is not for them. And we would stress that when we say 'work' we mean good work, work that is worthwhile and reasonably well paid.

The initiative for this enquiry came, in large part, from David Sheppard. In the Foreword to our report he writes:

> Will there be enough jobs to go round? That was the question which prompted this enquiry . . . Is mass unemployment here to stay?

This is the big question raised by the 'Future of Work' debate stimulated in the 1980s by the writings of Charles Handy and now continued in the United States by Jeremy Rifkin in his recent book *The End of Work*. It is a debate with which many readers of this Bulletin are, I am sure, familiar.

Society must decide

The response of the working party, in our report, is to say that the future of work is something for society to choose, not something inevitable or beyond our control. What ought to be the future of work? That is the right way to frame the question.

The answer we give is that work is basic to human nature — without it human lives will always be incomplete. As Christians we worship a working God. Human beings are made in his image and share in his creativity. No amount of clever new technology can substitute for that. Moreover we worship a God who came to serve and we see human work as a form of service too. Work involves human relationships, not just mechanical tasks. We are all called to serve one another, and that is one way of experiencing human love as well as human dignity.

Paid and unpaid work

The Christian theology of work is not new, nor is it likely to be very controversial. The theology of employment, or of paid work, is a more difficult subject. It is one which we discussed more intensely and on which we received more conflicting views. Some people suggested to us that the time has come for work and income to be separated. Work would be voluntary and an income would be provided to all members of society as of right. This is close to the Citizen's Income which readers of this Bulletin know well.

There is, of course, the counter-argument that such a separation of work and income would require very high rates of taxation. If the income provided to non-workers is to be adequate for living in a rich society like ours, then it is indeed true that those who choose to work will have to give up to the community a large part of what they earn. That is not the only issue worth discussing, however. We should also ask whether this separation of work and income is actually what we would want to achieve.

One member of the working party drew a comparison between the life of a community and of a family. In a traditional family the wife has plenty of work to do, and she has a share in the household expenditure, but she has no opportunity to earn. Increasingly women are rejecting this model and seeking opportunities for paid work outside the family. They want to see their contribution recognised and rewarded in the same way as men's work is. They do not want their work and their income to be separated. The same seems to be true for most people in our society, whether they are now employed or unemployed. They do not want to be given gifts — they want the chance to earn their own keep.

Those who will not work . . .

In our report we quote the blunt words of St. Paul when he wrote to the Thessalonians: *Those who will not work shall not eat.* Even in the very early days of the church it was necessary to remind its members that income and work could not be separated for the community as a whole. It was a community in which the tasks had to be shared as well as the rewards.

A small CI is not ruled out

This does not mean, of course, as we point out in our report, that a modest payment to all citizens without any means test might not be a useful supplement to the income which they earned by their paid employment.[2] We have some quite stern things to say about the bad effects of means-testing within the present benefit system and prefer an insurance basis for unemployment benefit so far as possible.

We do not therefore address the issues raised by the quite modest campaigning objectives of the Citizen's Income Research Group as currently defined.

The priority is jobs

Our main aim must be to combat the fatalism which says that unemployment is inevitable. That is why it was necessary to argue, in some technical detail, that economic policies could be introduced in Britain which would have the effect of creating many more good jobs. That is where our priority lies. That is where the report becomes most controversial.

Where could more jobs be created? The answer we give — quite a conventional one in fact — is that many of the jobs are likely to be in the service sector. We go on to note that many of the service sector activities in question, like health or education for example, happen to be in the public sector. We therefore draw the logical conclusion that higher taxation will probably be needed to finance expansion in these sectors. In this way plenty of good jobs could be created.

It is a simple argument, but not always a popular one. It is not one which political parties are particularly pleased to hear during an election campaign. Nevertheless it needs to be said and the churches deserve some credit for saying it.

Andrew Britton was Executive Secretary to the CCBI Working Party. He is also a former Director of the National Institute of Economic and Social Research.

Notes and references

1 Council of Churches for Britain and Ireland (CCBI), *Unemployment and the Future of Work: An Enquiry for the Churches*, CCBI, Inter-Church House, 35-41 Lower Marsh, London SE1 7RL, April 1997, 298 pp, ISBN 0 85 169 238 9, £8.50.

2 Page 77.

Social security in the computer age

Joe Lee

*One of the speakers at the launch of **Pathways to a Basic Income**, in Dublin 7 April 1997, was Professor Joe Lee. Here he repeats the gist of what he said then — namely that no social security system can last for ever and that in Western Europe adaptation to change is no longer optional, it is being forced upon us. The article is reprinted with permission of the Irish Sunday Tribune.*

Two recent publications – *Information Society Ireland*[1] and *Pathways to a Basic Income*[2] — have urged the Irish government to adapt its institutions to the rapidly changing world of information technology. In response the Government acted with startling speed on the information technology issue, by allocating funding for several of its recommendations. But its reactions to *Pathways* remain muted.

On the face of it, this is unsurprising. After all, there is no obvious connection between the two reports. If anything, they might seem essentially contradictory. The first is by a committee of business people and technocrats, preaching their gospel of a high-tech society. The other preaches a gospel based on social equity.

On closer reading, however, what is striking is how much the two reports have in common. This may be partly because *Pathways*, although published by the Conference of Religious of Ireland (CORI) and certainly inspired by a sense of social justice, is written by two economists: an American, Professor Charles Clark, and a young Irishman, John Healy. So the argument in *Pathways* does not rely, as can sometimes be the case with arguments driven by a social conscience, on vague or deluded assumptions about the resources available or the likely consequences for economic growth.

This is not to say that the *economic* arguments are necessarily convincing. To set out my own stall, my initial reponse to the idea of a Basic Income (BI), when I came across it some years ago, was highly sceptical, on the grounds that however intrinsically interesting the idea may be, we couldn't possibly afford it. It didn't therefore seem to me to be worth devoting much time to it. But my scepticism has gradually weakened in the face of further evidence.

Pathways seems to me to carry the argument on to a new plane, no longer merely a nice but impractical idea, but now a concrete proposal that should be either decisively refuted or accepted.

That cannot happen overnight, and it is right that Government, and the rest of us, should take some time to ponder all the implications.

A first reaction is naturally to focus on the tax rates necessary to finance this proposal, and to compare them with actual tax rates at present. This is not as simple a matter as it seems, because people's marginal tax rates can vary so greatly, but it should surely be possible to arrive at broad agreement on the facts. *Pathways* is packed with tables of figures showing how everybody's income would change. If the figures stand up, the critics must back down. If they don't, they must be revised, and one can then see how far the revision weakens the argument.

Apart from questions about arithmetic, issues like the impact of a BI on the incentive to work and on the supply of entrepreneurship, which were raised at the launch, need exploration. Would a guaranteed income of £3,600 a year reduce the incentive to work? Might it allow employers to get away with paying less, knowing that their workers already had £70 a week in their pockets? What is required now is rigorous and open evaluation of the specifically quantifiable aspects, and as disciplined a discussion as possible of the more qualitative issue of incentive.

> *Too often the current tax and benefit system discourages economic and social participation. Due to its outdated assessment methods, it often permanently stigmatises and excludes those whose skills technological change has made redundant. It discourages them from updating their skills or taking part in casual or part-time labour, and thus working their way back into the labour market. Too often it does not support participation in the social economy and non-market contributions to the Irish economy and society, and it inhibits gender equality by often classifying people as dependent on their partners. Labour market status rather than income levels often determines the level of benefits, and remaining idle is often the only way to insure the continuing receipt of benefits.*
>
> Pathways to a Basic Income, p. 14

No system is everlasting

One incontestable advantage of Basic Income (BI) is that it would replace the maze of tax and welfare provisions that create the present poverty trap for people on low incomes, as a result of which moving from welfare into a job can actually reduce a person's income.

Transcending these issues of detail, important though they be, is the striking similarity in the assumptions underlying the approach of *Pathways* and *Information Society Ireland*. Both reports are ultimately grounded on a belief in the inevitability of technological change, and therefore of change in the nature of the labour market.

The CORI report starts from the assumption that the inherited welfare state no longer serves its original purpose. It has succeeded in bringing "security and stability" for the majority. But it has also caused "inflexibility and rigidity". It can no longer cope with the changing labour market, where "labour flexibility has replaced job security, lifelong learning has replaced lifelong employment, and unskilled workers are competing with lower wage workers in Eastern Europe and the Third World".

The world for which the welfare state was devised has been fading away in the face of a changing global economy. There is nothing surprising about this. Concepts of the labour market, mechanisms of income distribution and strategies of response to the threat of poverty have all regularly changed as economies have changed.

The old Elizabethan Poor Law was introduced in 16th-century England to cope with a sense of rootlessness as familiar social landmarks vanished. When the Industrial Revolution began a new economic transformation, the new Poor Law of 1834 finally superseded the Elizabethan Poor Law, and its Speenhamland variant, however unsatisfactorily. In most countries, it is only in this century, immediately after World War Two, that the 'traditional' welfare state was established, as the world of the Poor Law vanished. That welfare state in turn began to fray at the edges in the 1970s.

Mrs Thatcher's diagnosis of these inadequacies was essentially correct. What was disappointing was her lack of imagination in responding to change. She sought to confront the future with a return to the past, allegedly inspired by Adam Smith. Yet Smith, one of the wisest and most incisive minds ever to ponder the mechanics of economic and social change, deserved much better than to have the profundity of his thinking simplified in a way that could be packaged to appeal to the primitive instincts of 'Essex man'.

The proper prescription for responding to change is not a return to a world that never was, or even to a world that was. It is creative adaptation to a new world.

The challenge of change

Pathways marks a courageous attempt to cope with the challenge of change. Change there will have to be.

The assumption that we can freeze our structures of income distribution, and our ways of rewarding work, while so much else in the world of work changes, is a recipe for both social conflict and economic inefficiency. Insofar as fear is a major obstacle to change, the assurance of a guaranteed BI for every individual may have an important role to play in overcoming resistance to change.

Redefining work

There are huge psychological as well as economic problems of resistance. As Olivia O'Leary observed when chairing the launch of *Pathways*, many are likely to feel uneasy at the ending of the direct relationship between income and work. They are indeed. So much of our self-image depends on assumptions of status deriving from earned income that psychological repercussions are inevitable. But what is proposed is not so much ending a relationship as changing it.

Like other Basic Income proposals, *Pathways* seeks to expand the concept of work to include work in the home as well as work outside it. The incongruity of treating housework as if it isn't work at all becomes even clearer in an age when a growing amount of work will be done from the home. Hypothetical examples cited in the *Information Society* report include cases of people working in the home, shopping from the home, linking up with the office from home, etc. In between, they might be attending to housework. How absurd it is to continue defining one as work, and therefore deserving of recognition from society, and the other as somehow not work, deserving of no recognition from society.

Let Ireland lead the way

The changing nature of work is central to both the *Information Society* report and *Pathways*. There is no reason why Ireland should not pioneer thinking in this area, given our experience of the speed of change in this country. Of course thinking along these lines is also occurring in other countries, as the realisation takes hold that inherited assumptions require revision. Observers from Britain and the continent of Europe attended the *Pathways* launch.

CORI's contribution to national and international thinking has been significant. The quality of the forthcoming debate will provide an interesting index of Ireland's intellectual and emotional maturity.

Joe Lee is a member of the Irish Senate and Professor of History at University College, Cork, Ireland.

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1 *Information Society Ireland*

2 Charles M.A. Clark, John Healy, *Pathways to a Basic Income*, CORI, Milltown Park, Dublin 6, 1997.

> *While the concept of 'basic income' has many attractions in the context of achieving individual rights to an adequate income, research indicates that it does not provide a panacea for all ills, and that there are practical obstacles to its implementation; nevertheless further research is desirable.*
>
> Beyond Equal Treatment, Report of Conference of the Irish Presidency of the European Union, Dublin, 10-12 October 1996, p 229.

Being realistic about pensions reform

Tony Salter

As a pensions professional, Tony Salter has examined proposals for privatisation of the basic state pension and found them wanting. He argues for a mixed economy of pensions, with the State providing a universal basic pension, at a level sufficient to prevent poverty, while the private sector provides the extras.

In recent years the debate about pensions has focused almost entirely on the increasing cost of an ageing population. A 1993 government report argued that demographic change, combined with longer life expectancy, would increase the number of pensioners from 10.4 million at present to a projected 15.5 million by the year 2030.[1] Despite studies from a number of sources, notably Hills[2] on social security expenditure and Warnes[3] on the demography of ageing, both of whom questioned the accuracy of current assumptions regarding future mortality rates, the Conservative government — against little or no opposition — disregarded the 'uncertainty of future numbers' and treated projections as if they were 'predictions of high certainty' — in order to justify cuts in benefits and care services for elderly people.

The response to demographic change of Conservative administrations from the early 1980s until their defeat at the General Election of May1997 was to reduce the relative value of the basic State pension by uprating it in line with prices instead of earnings; and to make reductions in prospective entitlements to the State earnings-related pension (Serps). As part of a strategy of moving from universal to selective benefits, they sought to make good the resulting shortfall for the poorest pensioners by increasing their income support entitlements, thereby transferring the onus of claiming onto pensioners, despite evidence of low take up.

These changes were accompanied by moves to shift responsibility for 'second tier' social protection, in both pension provision and health care, from the public to the private sector. Meanwhile many employers were seeking to curtail their own expenditures by replacing defined benefit schemes (with pensions based on previous salary and service) with defined contribution schemes (with pensions based on the money purchase value of accumulated contributions at retirement). This strategy enables employers to limit their exposures by achieving stable contribution rates, eliminating the risks of insolvency and avoiding the requirement to comply with legislation aimed at ensuring pension adequacy in defined benefit terms. The risks of inadequate pension provision (associated with poor investment performance and salary inflation under defined contribution schemes) are transferred to employees.

It is impracticable to view any pensions reform in isolation from the social environment in which it is taking place. For most of the 20th century and certainly since World War Two, one of the aims of the social democratic State has been to prevent poverty in old age by providing a basic level of retirement income funded from public resources, with the risks shared by the whole of society. The employer's aim is to promote efficiency and productivity among employees by encouraging long-term commitment to their jobs and by spreading income from employment more evenly over the life cycle. By means of occupational pension schemes, employers confer on their employees an equity interest in their job; and this creates a longer term identity of interest between employer and employee.

It is not inconceivable that a breakdown in this consensus on a 'mixed economy' of pension provision (a partnership principally between government and employers) will put the longer term relationship between employers and employees at risk. Indeed the signs of a breakdown are already discernible in a change of values in pension provision :

- From State to private provision
- From collective to personal provision
- From *pay-as-you-go* financing to advance funding

State *versus* private provision

The main argument for 'privatisation' of State pensions is their alleged cost. In the argument against State pensions there seems to be an implicit presumption that private pensions can be provided without cost to other workers or to taxpayers. But the argument does not hold water, because private pensions — unlike State pensions — are derived from employer and/or employee contributions which receive subsidies from taxpayers in the form of tax reliefs. Additionally, any employment costs incurred in providing private pensions are passed on to consumers in increased prices of goods and services.

It is also argued that privatisation of State pensions would increase efficiency and reduce administration costs. But in reality the State pension system is relatively inexpensive to administer, most social security contributions being paid through the mechanism for collecting income tax. The current UK State pension scheme (including the contracting-out option for Serps) is reckoned to have a ratio of administrative expenses to contributions of 5%, whereas for personal pensions the reduction in the investment yield due to expenses is equivalent to a cost of at least 20% of the contributions paid.[4] Costs are also incurred by the taxpayer for the regulation of private sector pension provision.

Collective *versus* personal provision

There is a further, quite separate argument which says that personal provision is more cost effective and therefore better 'value for money' than collective provision. Against this Leslie Hannah has pointed out that, at one extreme a State basic pension, operated within the framework of the general tax collecting mechanism, without the contracting out option, can have a ratio of administrative expenses to cash flow as low as 1%, while at the other extreme, personal pension plans entailing high selling costs normally have expense ratios of about 20% or more.[6] Medium-sized, employer schemes (with a few hundred members) have expense ratios of about 6%, while large schemes (with thousands of members and which cover the great majority of employees in occupational pension schemes) have ratios as low as 2%.

In practive, however, the costs of operating the public and private pensions systems in the UK have historically been much closer together than the above examples suggest, because private sector occupational pension provision has attained much lower expense ratios in operating its collective schemes than is the case with personal pensions.

There is no reason to suppose that personal pensions will be able to achieve higher investment yields than occupational pension schemes. Yet this is the only way their higher expense ratios could be offset, to give a reasonable return compared with occupational pensions. Despite this there are indications that tens of thousands of employees have been wrongly advised to opt out of occupational schemes into personal pensions. For example, a 1993 study by Bacon & Woodrow [7] estimated that a defined benefit occupational scheme will provide a pension of between 59% and 60% of final pay (depending on job changes), whereas a personal pension would provide between 20% and 40% of final pay.

Funding *versus* Pay as you go financing

The argument that advance funding invariably provides greater security than *pay as you go* financing (meaning a system whereby this year's contributions are used to pay this year's benefit) is not easy to substantiate. Indeed, the principal argument in favour of France's system of *repartition* — a collective system of occupational pensions financed on a *pay as you go* basis — is the greater security it affords, by the spread of risk over generations.

It is also claimed that, in addition to greater security, the funding of pensions increases real investment, enabling pensions to be paid without reducing the incomes of future generations of workers. But the evidence for this is inconclusive. Keifitz warns that over-reliance on saving for retirement could result in investments that exceed prudent investment, market opportunities, the implication being that a reasonable balance should always be maintained between concurrently operated systems of *capitalisation* and *pay as you go*, in order to obtain a broader spread of risk.

This is also true at the micro-economic level. A pensioner, through pay-as-you-go financing, has a claim on human capital (the earning power of future workers) at a time when his or her own human capital is low or non-existent. Without that claim the assets will, either directly or indirectly, be entirely dependent on tradeable assets in financial markets.[10]

No pensions are free

There is no such thing as a cost-free pension. The argument that 'privatisation' and 'personalisation' of retirement savings will enable pensions to be provided without cost to other workers or taxpayers does not withstand close analysis. All pensions, not only State pensions, represent a transfer of resources from one part of the population to another, because, as Paul Johnson and Jane Falkingham have pointed out:

> "... any saving for old age, whether public or private, funded or unfunded, involves the accumulation of a claim on the goods and services produced by future generations of workers."[11]

Most businesses readily appreciate the advantages of a broad spread of risk provided by a mixed economy of pension provision, incorporating State and private provision, collective and personal pension systems, pay-as-you-go financing and advance funding.

A citizen's pension plus private pensions

In market economies where a significant proportion of the population will have irregular periods of employment through their working lives, and many people will be unemployable unless they are able to acquire the skills which are in demand, it is difficult to see how sufficient earnings-related pension rights can be built up under either a State pensions system or a private pensions system.

It would therefore seem more reasonable for the State, as the natural source of social protection against poverty, to concentrate public resources on provision of a basic retirement income or *Citizen's Pension* for all members of the community who have attained pensionable age, with entitlement to it based on a residence qualification (as in Denmark and the Netherlands). This Citizen's Pension should be at a high enough level to ensure that all elderly citizens have resources corresponding to a scientifically based and generally accepted measure of human need.

People can be said to be poor when their incomes fall below the threshold of need. However human needs are not static, so the poverty threshold changes with time, nor are they entirely material, therefore an acceptable pension should allow for social and psychological needs as well as food and shelter. In order to evaluate and measure this relative concept of need, household budget standards, regularly updated, provide useful indicators. Such budgets are commonly used in North America and continental Europe and are starting to be used in the UK.[12]

Free to choose

There is also a need for autonomy. Autonomy during retirement requires more than income adequacy, it also requires a flexible framework of pension provision in which choice is possible and personal goals — to work or not to work or to work part-time are meaningful. The continuing existence of scarcity and the variety of claims on society's resources make it essential for pension systems to be administered efficiently. The system should not discourage work in the case of elderly citizens with productive capacity, who want to work. Complex claiming procedures and delay should be avoided and the need for detailed, individual assessments minimised.

The advantages to business organisations and their employees of a State provided basic retirement income sufficient to eliminate the need for means-tested top-ups, and providing a foundation on which employment-related pension rights can be built, are fairly clear. If the State, as the agent of the community, were to take responsibility for providing a high enough level of social protection to meet the basic physical and psychological needs of the elderly, this would open the way for employers to provide employee benefit plans, as part of the total remuneration package, designed to provide employees with a wide range of options, according to their own personal preferences and requirements.

Tony Salter has worked in the pensions industry for many years. From 1970 - 92 he worked for Swiss Life, where he became Head of Sales and Marketing. Currently he is a Consultant with Bacon & Woodrow in London. He is also a trustee of Citizen's Income Trust.

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Obituary

Nancy, Baroness Seear

Born 7th August 1913, died 23rdApril 1997

Hermione Parker writes:

Nancy Seear, who died last April after a long illness, was one of those rare individuals who rate honesty above self-advancement and regard honours bestowed upon them as a call to duty rather than a reward — least of all as a cause for pride or snobbery.

I make no claim to having known her particularly well. To appreciate her qualities there was no need, they shone through too brightly. On occasions when we took tea together in the House of Lords, it became clear that she appreciated similar standards in others too. She also had a cordial dislike of any sort of flattery or affectation. Greeted by an elderly peer with an effusive peck on the cheek, she afterwards remarked: "Where has this habit of kissing all and sundry come from?"

Nancy was immensely loyal, a quality which, when combined with intellectual honesty, can cause mental anguish. I am thinking particularly of the 1994 Liberal Democrat Conference, at which the delegates rejected Citizen's Income after a sixteen-year commitment to it. As a Liberal Party supporter for most of her adult life, Nancy put loyalty first. But she found it hard to come to terms with a *volte face* of such proportions and was nagged by doubts that she, as the Conference speaker who had put the case in favour of CI, was somehow responsible for its rejection.

Citizen's Income Trust was one of innumerable good causes in which she was involved — partly, I suspect, because of its implications for women, whose rights she staunchly championed. During 1991 she was a regular attender at meetings of our study group on women; and in 1989, in her review of Sir Brandon Rhys Williams' book *Stepping Stones to Independence*, she summed up her support for Citizen's Income in the following words:

> This is a scheme whose time has come. Modern technology makes it at last a practical proposal. Based on the individual, regardless of sex or marital status, a basic income is admirably suited to today's recognition of women's rights as individuals. It is also timely, in view of the changes rapidly taking place in attitudes towards the welfare state. While it is widely recognised that the welfare state, as it emerged after the Second World War, is not and should not be set in concrete, there is also a widespread fear that it is being in part dismantled, with little consideration of alternative provision.
>
> (Nancy Sear, BIRG Bulletin No. 9, 1989.)

Obituary

Hans Breitenbach

Born 8th August 1917, died 12th June 1997

Kevin Donnelly writes:

My first encounter with Hans Breitenbach was through BIRG (now Citizen's Income Trust), when I saw his name on a mailing list and got in touch with a view to promoting Basic Income in the North of England. The last time we spoke was when he rang me about the same issue of promoting CI — as we agreed to say — "among the vast electorate which happens not to live in the Home Counties".

Hans fled to England from Nazi Germany during the 1930s. Despite years of living in Knaresborough he never abandoned his German accent for a Yorkshire one, nor did he change many ideas once he had become convinced of their merit.

He was a committed socialist and was involved in both Yorkshire Fabians and the Harrogate constituency Labour party. Citizen's Income was for him one of the indispensable *Features of a Viable Socialism*, to quote the title of the book he helped to write. To those who disagreed with him he was always polite and fair, to those who did not understand his approach to CI — as I did not — he was patient and generous.

This generosity showed itself when he entertained Abigail Thomas and myself to supper after a CI conference in London. Recollections of his incredible past lit up the meal we had together. He was in his mid teens when he opposed the Nazism which eventually drove him from his homeland. Later, in war service for Britain, he took risks which others would reasonably have thought twice about. This friendly single-mindedness was his distinctive feature and is our abiding memory.

Obituary

Desmond, Lord Banks

Born 23rd October 1918, died 15th June 1997

Philip Vince writes:

With the death of Lord Banks, the campaign for Basic Income has lost one of its strongest advocates. After being Chairman and then President of the Liberal Party, Desmond Banks became a Life Peer in 1974 and was the Party's social security spokesman from then until an incapacitating illness forced him to retire in 1991. By profession Desmond Banks was an insurance broker and pensions consultant and in the House of Lords he was recognised as far more knowledgable on social security than most of the Ministers responsible for it.

In 1978, when I sent him the analysis and costings I had done for our Treasury spokesman of our previously rather vague recommendations for Tax Credits — later to be known as Basic Income — he had the paper developed into a pamphlet entitled *To Each According . . . the Liberal Tax Credit Policy*, for which he wrote the introduction and which he had published in time for the 1979 General Election. He subsequently arranged for a second edition, updated and expanded, to be published during the 1983 General Election campaign.

After the merger between the Liberal Party and the Social Democrats in 1988, which formed the Liberal Democrats, Lord Banks was a member of the group chaired by Baroness Seear which met to reformulate policy on taxation and benefits. He was particularly insistent on the need for some element of universal income, however small. This led to the inclusion of a transitional BI in *The Common Benefit* policy adopted by the Liberal Democrats in 1990.

With the deaths in such quick succession of Nancy Seear and Desmond Banks, advocates of Citizen's Income have lost two outstanding supporters.

At Home and Abroad

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

Argentina

CI fund for children

Ruben Lo Vuolo reports: We are pleased to inform you that on 3 March, 1997 a Bill was submitted to the Argentinian Congress (Chamber of Representatives) proposing the introduction of a Citizen's Income Fund for Children (FINCINI, or *Fondo para el Ingreso Ciudadano de la Niñez*). The Bill was presented by Representatives Elisa Carca and Elisa Carrió, both of whom are members of the UCR Party *(Unión Cívica Radical)*, which is former President Alfonsin's party. It is backed by other Representatives of the same Party and also by a Deputy of *FREPASO (Frente del País Solidario)*, a Left-of-centre coalition formed in 1994. Ruben Lo Vuolo and Alberto Barbeito advised on the project, following the main lines of the paper they presented at the BIEN International Congress in Vienna, September 1996.

It is not known how long it will take for this Bill to go through Congress, nor is it certain to become law. It nevertheless constitutes an important step in the debate about CI in Argentina, particularly because it leads to prolonged media coverage.

Belgium

A European 'Benefit-Tax' Model

Philippe van Parijs reports: Hosted by the Université Libre de Bruxelles (Professor Danièle Meulders) and attended by more than 100 participants, this workshop provided an opportunity to present and discuss the aims and potential of the EUROMOD project, sponsored by the European Commission. The aim is to build, for all EU member states, an essentially common, arithmetic micro-simulation model of each country's tax and benefit systems, with associated comparable data bases.

This would make it possible, for example, to model the costs and redistributive impacts of similar reforms in different countries, or to explore the global impact of Europe-wide reforms.

Professor A.B. Atkinson (Oxford) and Holly Sutherland (Cambridge), Director of the project, set out its basic objectives. Professor François Bourguignon (DELTA, Paris) then illustrated its potential use, by simulating the introduction of a revenue-neutral Basic Income at subsistence level in France, the UK and Italy. The redistributive effects of such a change turned out to be surprisingly small in France and the UK, but considerable in Italy.

For further information contact: Holly Sutherland, Microsimulation Unit, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE.

Bolivia

A citizen's pension called *BONOSOL*

This entry is reprinted by kind permission of The Financial Times, having originally appeared in Financial Times International Edition, 6 May 1997.

Sally Bowen reports: Ambulances will be standing by at football stadiums in Bolivian cities today, as thousands of elderly people flock to collect $250 in cash — the first payment of the *Bonosol* or solidarity bond, a universal old-age pension unprecedented in Latin America.

In the next few months, more than 300,000 people of 65 or over are expected to claim the benefit. Two-thirds already have the necessary documentation; thousands more are queueing outside police stations to register for identity cards. For many, who live largely outside the formal economy, it is the first time they have bothered to do so.

The Bonosol, to be paid annually, is equivalent to about a third of average per capita income. "It's an income transfer that will make a tremendous difference, especially in the rural areas," says President Gonzalo Sanchez de Lozada. It is a uniquely Bolivian formula for redistributing proceeds of 'capitalisation' — the country's retained share in former state-owned companies now transferred to private sector 'strategic partners'. In the past two years, management control of five monopolies — in electricity generation, rail and air transport, telecoms and hydrocarbons — has passed to new, foreign operators along with 50% of each company's equity.

Although all were offered through a public bidding process, Bolivia's novel capitalisation mechanism ensures that, instead of going into the treasury coffers, the amount bid is injected into the company as fresh capital. The state gets no cash from the transaction. But, as today's Bonosol payments finally prove to an often-sceptical public, the Bolivian people do. The 50% shareholding in the capitalised companies corresponding to the state has been transferred to two private pension funds or AFPs, selected through international tender. They will manage the $1.7 billion 'collective capitalisation fund', which pays the Bonosol, while simultaneously setting up an individual pension fund system along the lines of those operating in Chile and Peru.

'Futuro de Bolivia' is dominated by the Spanish Argentaria banking and financial group. Invesco, the London and Atlanta-based fund manager, has a 10%

stake; several minority partners include a local insurance group and a consortium of five non-governmental organisations with many years experience in delivering micro-credits to rural smallholders, miners and artisans. Spain's Banco Bilbao is the prime mover behind 'Prevision BBV'. Its partner is Bolivia's Banco Industrial (BISA), a leading domestic financial services group.

Bolivian territory has been divided between the two. Futuro de Bolivia, winner at auction with the lowest offer on commissions, chose to operate in the Andean highlands, leaving Prevision BBV to cover the eastern lowlands. They will compete for clients in the largest cities: La Paz and its satellite El Alto, Cochabamba and Santa Cruz. In rural areas, elderly peasants will collect their Bonosol from mobile AFP-operated vans. "It's been a race to get everything ready in time," says Mr Marcelo Sabalaga, general manager of Futuro de Bolivia. He spearheaded the initiative to set up the AFP. Over the past two years, he has closely studied Chilean and Peruvian experience in creating a private pension system from nothing.

Although Futuro de Bolivia has contracted technical support from Profuturo, a leading Peruvian AFP, to help set up operating systems, the Bolivian pension fund scheme differs substantially from those in other Latin American countries:

First, the AFPs start with a very substantial fund to administer: \$1.7 billion is equivalent to more than a quarter of Bolivia's gross domestic product.

Second, the old and inefficient social security system — backed by three dozen so-called 'complementary funds' — has been liquidated and contributors assigned to one or other of the new AFPs. "It was a bold and courageous decision by President Sanchez de Lozada," said Ms Martha Kelly of Ernst & Young, advisers on the scheme's promotion. "A new system can't work properly with the old one existing alongside."

Third, with only two AFPs sharing the market, commissions are exceptionally low. Expenditure on the sort of cut-throat publicity campaigns seen in other countries will be absent.

For President Sanchez de Lozada, the establishing of the AFPs is an essential complement to divestiture of the state-owned companies. "Capitalisation means an important injection of foreign investment," he said in a recent interview. "But pension reform means capital formation, stock and bond markets almost overnight. What Bolivia needs is local savings to complement foreign investment."

This first year's Bonosol — expected to cost \$70 million — will largely be covered by dividends already produced by the capitalised companies. The government will cover a shortfall of \$25 million with a bridging loan. Next year, however, the AFPs expect to start listing and trading shares in the (now) ten limited companies created from the old state-owned five. "We don't yet know which shares or how many, but we'll have to sell," says Mr Sabalaga. This should kick-start activity in the sleepy Bolivian stock market.

Bolivia's political opposition is threatening modifications to the Bonosol in the wake of the anticipated defeat of Mr Sanchez de Lozada's MNR party in elections scheduled for June 1. But politicians of all persuasions and the business community seem to support the AFP system.

Finland

Tapani Lausti reports: On 15 March, a group of Finnish parliamentarians received information about the British debate on Citizen's Income, when the Editor of the Citizen's Income Bulletin, Hermione Parker, met Members of the Finnish Parliament in London, at a meeting organised by the Finnish Institute.

This mini-seminar, titled *Lobbying for Change in British Society,* was organised in connection with the visit to the UK of the the Finnish Parliamentary Committee for the Future. The committee has been preparing comments on the Finnish Government's report, called *Finland and the Future of Europe,* which is now available in English **(See Books and Papers received)**.

The first British speaker was Matthew Pike, Director of the Scarman Trust, who spoke about the Trust's work. Hermione Parker then described the work of Citizen's Income Trust, the current debate about CI in Britain, including Participation Income, and the effects of the present tax and benefit systems on the lower paid, especially families with children.

That first seminar was followed up in June by another, titled *I have seen the future — but does it work*?, at which the Finnish Parliamentary Committee was invited to introduce its report. Rosalind Stevens-Strohmann and Hermione Parker took part in the subsequent discussion.

Ireland

Charles Clark writes: On 7 April, 1997, in Dublin, the Conference of Religious of Ireland (CORI) launched *Pathways to a Basic Income* (**see Books and Papers received**). This is CORI's latest in a series of publications on the possibilities and benefits of implementing a Basic Income (BI) policy in Ireland. It was written by Charles Clark, St John's University, New York, and John Healy, formerly of University College Cork, Ireland.

Pathways to a Basic Income demonstrates how CORI's BI proposal, outlined in an earlier publication *Planning for Progress,*[1] could be implemented in Ireland over a three-year period. It also addresses issues which have been the subject of previous studies and have generated much debate. One of the most surprising findings is that CORI's earlier proposal for a partial BI of £60 per adult per week could be financed by an income tax rate of 44% — much lower that the 68% cited in the Department of Social Welfare's Expert Working Group report *Integrating Tax and Social Welfare*, published in 1996.[2] As the *Pathways* study used only Revenue Commissioners' estimates of the collectable tax base and very conservative assumptions, the issue of the need for very high tax rates to fund a BI has been settled in CORI's favour. In fact, *Pathways* shows that a full BI of £70 a week could be funded at a tax rate of 48%, making the effective tax rate for the vast majority of Irish taxpayers lower in the CORI plan than under the current system.

Pathways has to be seen in the context of the discussion on BI in Ireland over the past few years. When CORI first proposed a BI policy in the early 1990s the most common initial reaction was that 'everyone would like to provide a guaranteed income, but it would be too expensive: Ireland cannot afford a Basic Income'. Two studies (the first by Seán Ward [3], the second by Dr Francis O'Toole [4]) showed that, in fact, Ireland can afford a BI — and this study reinforces their conclusion.

The next set of objections to the CORI plan centred on the possible implications of BI for the Irish labour market. The fear expressed was that the high tax rates — although they are not far removed from existing tax rates — coupled with the generous benefit levels would act as disincentives to work. *Pathways* focuses on this issue, which was first addressed in *Basic Income and the Irish Worker.* [5]

Lastly, those objecting to the CORI proposal state that in the future a BI might be worth considering, but today it would be too difficult to implement. *Pathways* addresses this objection also. First it gives three possible strategies for implementing a BI in Ireland, then it analyses the impact of each of these strategies on the Irish economy, noting the strengths and weaknesses of each option. It also compares the three BI options with three possible options government can take using the existing tax and benefit systems. Each policy option is judged according to its success in addressing the three most fundamental and pressing economic and social problems facing Ireland, namely:

- Does the policy option promote or retard social participation?
- Does it spread out or concentrate the benefits of economic progress?
- Does it move Ireland towards the post-industrial society of the 21st century, or keep it tied to the social arrangements and conceptions of the past?

Pathways concludes that a Basic Income policy reaches these goals more successfully than conventional policy options. The BI options are also more beneficial in equity terms than any of the conventional options.

Pathways also addresses the labour market implications and income distribution effects of the CORI plan. Chapter Five argues that a BI policy would promote economic efficiency, in terms of increased economic growth rates, greater labour market flexibility and higher levels of social participation.

Chapter Six uses the 1994-95 Household Budget Survey to examine the effects of the CORI proposal on income distribution. It shows that if the extra revenues accruing from Ireland's recent and expected economic growth were used to help pay for the BI policy, the income benefits would go to the lower income deciles, with only small losses in the upper deciles.

During recent years the economy has grown faster in Ireland than in any other Member State of the European Union. The problem is that those recent successes have not reduced the numbers in poverty nor the level of income inequality. Nor have they reduced the high rate of long-term unemployment. All these problems seem immune to statistical economic growth.

With the existing tax and benefit systems the benefits of Ireland's economic growth are highly concentrated among upper income households. That is because the current system is concentrating benefits at the top, while providing disincentives and barriers to those at the bottom. CORI's Basic Income policy is designed as an institutional reform of the way income is distributed in the economy. It takes part of the National Income and divides it equally — based on citizenship, not market participation. It nevertheless leaves most income determination to the market, keeping the beneficial effects of market-based incentives while removing the disincentives of the current system.

Recognition of the failure of the current system to address these issues is wide-spread in Ireland, as was shown by the positive response CORI's report received in the Irish Press. Numerous editorials, interviews and centre page articles have highlighted that CORI has something important to add to the policy discussion on how to reduce poverty and increase social participation.

Charles Clark is Professor of Economics at St. John's University, New York. He spent the 1994-95 academic year as Visiting Professor of Economics at University College Cork, Ireland.

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2 Report of the Expert Working Group on the Integration of the Tax and Social Welfare System, *Integrating tax and social welfare,* Dublin, Pn 2755, June 1996. See also CI Bulletin No 23.

3 Seán Ward, *A Basic Income System for Ireland,* in *Towards an Adequate Income for All,* CORI, Milltown Park, Dublin 8, 1994.

4 Francis O'Toole, *The Costings of a Basic Income Scheme,* in *An Adequate Income Guarantee for All: Desirability, Viability and Impact,* CORI, Milltown Park, Dublin 8, 1995.

5 Charles M. A. Clark and Catherine Kavanagh, *Basic Income and the Irish Worker,* in *An Adequate Income Guarantee for All: Desirability, Viability and Impact,* CORI, Milltown Park, Dublin 8, 1995.

United Kingdom

Citizen's Income Trust

Rosalind Stevens-Strohmann reports: May I take this opportunity of introducing myself as the new Director of Citizen's Income Trust (CIT). My background is one of economic and political research, with a special interest in social justice and welfare issues.

The period since my appointment has been a very hectic one, coinciding as it did with the run-up to an historic General Election. I believe we are witnessing a sea change in British politics. For Citizen's Income Trust this requires a strengthening of our efforts to persuade the new Labour government to "think the unthinkable" and take on board Citizen's Income as an integral part of long overdue welfare reform.

Future of CIT

My first task has been to devise a strategy aimed at promoting CIT's profile. In order to make effective use of our resources, we will target those policy areas where there is a general consensus on the need for reform. We have started a study group to look at citizen's income and pension reform proposals. I am also exploring how best we can promote CI within the context of the new 'flexible' labour force. CIT also intends to make submissions to the Government's Task Forces on tax and benefits and on pensions (the latter will be set up later this year).

Public relations

A revised and updated information leaflet on CI, aimed at the general public rather than the expert, will be published shortly and made widely available. We are also developing our Website, to make us more accessible internationally.

Events and activities

An important part of the Director's work is to get out and about, make new contacts and strengthen existing ones. I was delighted to meet Professor AH Halsey at Nuffield College, Oxford having learnt about his support for CI — he has promised a contribution for a future edition of the Bulletin — and having read his critique of Charles Murray's assertions about the 'underclass'.

In May I was also able to take advantage of a personal visit to Brussels to make contact with DGV at the Commission. Although by no means keen advocates of CI, they have invited me to give an internal seminar to Commission officials, putting our case, later this year or early in 1998.

For those of you I have yet to meet — please be patient. As my contract is on a part-time basis it is taking me longer than I hoped to make the rounds.

BIEN meeting

In May I travelled to Louvain-la-Neuve, Belgium to attend a meeting of the Basic Income European Network (BIEN). BIEN currently has 80 fee-paying members from 18 countries, and 220 Internet subscribers. The May meeting was organised around an excellent seminar given by Thomas Piketty of CNRS-CEPREMAP in Paris. Piketty presented a paper entitled *La redistribution fiscale face au chômage,* which drew a large audience keen to learn about the various options, including negative income tax (somewhat confusingly referred to as basic income) for combating unemployment without increasing poverty.

Piketty also participated in a workshop on the same theme, during which several apparent paradoxes were discussed, for example that it is better for the poor that the rich also receive a BI and it is better for the poor that tax rates are high in order to achieve the highest possible level of BI. The workshop also discussed alternatives to a universal BI, for example earned income tax credits (as in the USA). Further research is to be undertaken to enable us all to develop and strengthen our arguments in favour of BI.

A key item on the agenda was the 1998 BIEN bi-annual conference, which will be held in Amsterdam on 10-12 September 1998. Further details will be given in the Feburary 1998 Citizen's Income Bulletin. The event is being organised by the Dutch Basic Income Network / *Vereinigung Basisinkommen* together with the University of Amsterdam. There will be a sequence of plenary sessions and parallel workshops on three broad themes:

- *Full employment without poverty*
- *Sustainable funding*
- *Social Europe*

Forthcoming events: Oxford and Jerusalem

Citizen's Income Trust has been invited to submit a proposal for a parallel workshop on CI as part of a two-day workshop entitled *Citizenship and the Welfare State,* to be held at Ruskin College, Oxford, on 18-19th December. The Workshop is being organised by the Schools of Humanities and Law at Oxford Brookes University, to mark the eve of the 50th anniversary of the welfare state in Britain. The plenary speakers include Professor Michael Hill (Newcastle University), Professor Jane Lewis (Oxford University) and Professor Ruth Lister (Loughborough University). Details can be obtained from Tim Blackman, Deputy Head of the School of Social Sciences and Law at Oxford Brookes University, Oxford OX3 0BP, Tel 01865 484137, Fax 01865 483937, E-mail tjblackman@brookes.ac.uk.

I have also been invited to present a paper arguing the case for CI at an International Research Conference on Social Security in Jerusalem, 25-28th January, 1988. This is a major research conference, organised by the International Social Security Association (ISSA) in Geneva. The theme is *Incentives and targeting in social security*, focusing particularly on the impacts of such policies. My paper will be included within the section entitled *Alternative models of social security*, which will also have speakers from the International Labour Organisation (ILO) in Geneva, the Australian Department of Social Security, and Tilburg University in the Netherlands.

The way ahead

The task ahead continues to be winning hearts and minds. It needs a clear and concise message and we must resist the temptation to become embroiled in technical arguments, which might distract our audience from our goal.

I shall endeavour to produce work of the highest standard to back our arguments and hope I can rely upon your continuing valuable support.

Book Review

CITIZENSHIP TODAY
The contemporary relevance of T.H. Marshall

Martin Bulmer, Anthony M. Rees (eds.)

London: UCL Press, 1996, pp 306,
ISBN 1 85728 471 2 hbk, 1 85728 472 0 pbk

Jane Millar writes:

The idea of a Citizen's Income (CI) received rather short shrift from the Labour Party's Commission on Social Justice[1]. In their report CI was discussed and rejected in just three pages — albeit with a nod in the direction of the future — on the grounds that it would not be politically acceptable, that it could lead to social exclusion, and that it would require high tax rates to finance it. The discussion was tantalisingly brief. Much of the analysis in the report certainly pointed in the direction of a CI, so what led the Commission to reject it with so little discussion?

Patricia Hewitt's chapter in *Citizenship Today* provides part of the answer. Hewitt was a leading member of the Commission and is now an influential Labour Member of Parliament. Her T.H. Marshall Memorial lecture was given in 1995 and forms one of twelve such lectures gathered together in this interesting collection. Marshall was Head of Social Sciences at the London School of Economics in the immediate post-war period and his essay on *Citizenship and Social Class*, published in 1950, still, as this book demonstrates, resonates and inspires.

The editors have placed the essays by content, rather than in chronological order, and so the book moves from the more theoretical and philosophic contributions by, for example, Ralf Dahrendorf, A.H. Halsey and Anthony Giddens to more policy-oriented chapters by, for example, James Meade, Janet Finch and William Julius Wilson.

It is a strong collection and, as the editors point out, one with much that is relevant to current issues and debates.

At a time when a new British government is promising a new welfare future, in which rights are balanced with responsibilities, the question of the relationship between citizenship and social rights is of central importance.

Hewitt is the only author to examine CI in any detail, although both James Meade and Ronald Dore include some, in both cases positive, discussion. The main question addressed by Hewitt is *Does a global economy make social justice impossible?* This, she argues, is a contemporary version of the tension that T.H. Marshall identified between civil and social rights. Can we have economic prosperity and collective social rights both at the same time? Can we compete in the world economy but still offer social protection?

Hewitt sketches in what she sees as the impact of globalisation:

> "The result in the West is, simultaneously, a growing class of the socially excluded and a declining willingness to meet the costs of supporting them" (p 254).

The problem, then, is how to include the excluded in a way that is accepted as legitimate, but which is also compatible with economic success. To solve this problem it is necessary to "rethink the purpose and nature of the welfare state" (p 250) and the nature of social rights.

It is in this context that the discussion of CI is placed. A CI would be, she agrees, the ultimate expression of the welfare state, if social rights were defined to include the right to an income not dependent upon market value or contribution. Such a right is arguably even more pressing in the context of economic globalisation, which acts to widen inequality and to "deprive a growing number of our citizens of the ability to earn a living" (p 258). But the Commission on Social Justice rejected this choice and it is likely that Hewitt herself played a large part in this, given that, as she says, the Commission could not reach agreement on this issue and that "many of my colleagues . . . take a very different view" (p 258).

Hewitt offers three main reasons for rejecting a CI. First, she argues that, far from promoting social inclusion, a CI might lead to more social exclusion, particularly exclusion from the labour market. If the income needs of unemployed people, including non-employed lone mothers, were met by a CI, then their need for jobs would come to be seen as less pressing and would tend to fall off the policy agenda. Secondly, the high tax rates necessary to pay for a CI would create disincentives to work, especially for married women. Thirdly, although some argue that a CI would promote gender equality, because it values and supports unpaid work, in practice a CI would deepen gender inequality by detaching women from paid employment.

Hewitt's argument thus rests firmly on the equation of social inclusion with paid employment. Everyone must be active in the labour market. It is through paid work that people become part of society. The role of the welfare state is to create the conditions under which everyone can participate in the market economy. The role of social security is to "allow people to engage with the labour market on different terms at different stages of their lives" (p 263) — best met, Hewitt argues, through a modernised and individual social insurance system, funded at least in part through indirect taxes.

There are a number of places where readers might want to take issue with these arguments. Are social inclusion and paid work really so closely entwined? For some individuals and families it is too much employment that causes problems and not too little, yet it is not clear that social insurance would be better than CI at providing the flexibility necessary to redistribute employment between people or across the life-cycle.

Hewitt's reasons for rejecting a CI rest on particular assumptions about how people will behave, but these assumptions are not clearly grounded in empirical evidence. They also seem a little contradictory — for example if paid work is so highly valued and so central to the experience of social inclusion, then why should a CI, or higher marginal tax rates, so easily discourage people from work?

Hewitt's chapter provides useful hints as to why the Commission rejected CI, but it would also be interesting and helpful to hear from those members of the Commission who took the "very different view". The new Labour government — Frank Field in particular — want to reduce the role of means-testing in the delivery of benefits. Many people agree with that aim, but we still need a rigorous debate on whether CI or social insurance (or perhaps a mixture of both) provides the best alternative.

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

Reference

1 Commission on Social Justice, *Social Justice: Strategies for National Renewal,* Vintage, 1994. See also book review by Jane Millar in CI Bulletin No. 19, January 1995.

Book Review

MODERNITY AND THE STATE East, West

Claus Offe

English edition, Polity Press,1996, pp 270
ISBN 0 7456 1232 6

Rosalind Stevens-Strohmann writes:

The purpose of this book is to explore political coherence in modern societies. Its editor and author is the distinguished Professor of Political Science at the Humboldt University, Berlin. The key question he sets out to answer in this rather opaque text is *How can legitimacy co-exist with effective governance?* The target audience includes social and political scientists and readers of Eastern European studies. The title is somewhat misleading, given that the book relies heavily on the German experience.

The book is in four parts, of which Part 3 is the most likely to interest less academic readers, since it examines the politics of social welfare in Europe. Chapter 7, co-authored with Rolf G. Heinze, is an abridged version of a book entitled *Beyond Employment* (Polity, Cambridge, 1992). It considers alternative means of organising work with a view to reversing the historical shift away from the domestic production of goods and services towards monetary purchase or state provision. It also explores the conflict between the moral obligation to 'help thy neighbour' and the desire for individual freedom. At its best the market economy may secure equality of opportunity. The strength of the welfare state lies in its potential to provide and maintain a minimum standard of living .

Chapter 10, entitled *Basic Income guaranteeed by the state: A need of the moment in social policy,* was written by Ulrich Muckenberger and Ilona Ostner, who base their case for BI on the premise that it is unrealistic to assume full employment is still possible without unacceptable side effects, such as low wages, poor working conditions and a much diminished social security system. The authors favour a negative income tax model, with benefit paid in arrears and equal to a predetermined percentage of any shortfall between earned income and the income guarantee. However the shortfall would never be paid in full, in order to maintain a financial incentive to work.

It is unclear whether the unit of assessment for benefit would be the individual, the family, or the household; and whether the basis of entitlement would be legal residence, proof of need, or some sort of participation requirement.

The authors appear to argue for a switch away from insurance benefits towards benefits determined according to need, but no explanation is given of how 'need' would be determined. They also propose that the BI should be introduced as part of a wider package, including reduced and more flexible working hours and the development of an 'informal sector'.

The groups most likely to support BI are said to be those in receipt of state benefits, those with vested pension rights, trades unions (on the supposition that a BI, by restricting labour supply, would drive up wages), employers (who would gain from the abolition of social security contributions), and women (who would find their unpaid work in the home more fully valued).

Finally a word of warning! This book is not for the faint hearted. The determined scholar, if he or she has enough German, would be well advised to tackle the original German text. The central argument in favour of BI (in the sense used here) appears to be that fewer people would claim it because many more could. This seems far removed from the British case for BI. However the confusion may be due to translation difficulties.

Rosalind Stevens-Strohmann is Director of Citizen's Income Trust.

Book Review

TO RESTRAIN THE RED HORSE
The urgent need for radical economic reform

Alan A. Armstrong
Towerhouse Publishing Ltd, 1996, 137 pp
ISBN 0-9529320-0-8, pbk, £11.95

Frances Hutchinson writes:

In 1916 an unknown engineer turned accountant lighted upon a curious observation. There appeared to be an inconsistency in the relationship between the flow of prices and wages in the factory in which he worked. At this time, Major C.H. Douglas knew nothing of economics, still less of social theory. Yet a mere two years later he started to write a series of articles and books which gave rise to a popular body of economic theory known as *social credit*. How this 'clever little idea' developed into a rounded body of economic thought is a story for another day. What happened to those ideas is the subject of this review.

Douglas had no vision of his target audience. Who might read his work, and how his theories might coincide with the political philosophy of the time did not concern him. Yet his writings drew followers across the globe and attracted serious and penetrating critiques. They continue to intrigue professional and amateur economists to this day.

The author of *To Restrain the Red Horse* falls into the latter category. Armstrong shares with Douglas the inability to define a target audience. Who will restrain his "red horse", with its power to take peace from the earth? The title and sub-title are as wild and obscure as Douglas' later titles, *Warning Democracy*, *The Big Idea* and so on. Furthermore, 'radical' economists are classified as those seeking greater equality through state ownership. Douglas certainly didn't advocate state ownership. Neither, I suspect, does Armstrong.

The problem is to decipher exactly what Armstrong is saying. On the cover we are regaled with an account of his chequered career. He came across Douglas' 'monetary reform proposals' late in life and decided to study them. In early retirement he attended Heriot Watt University and studied the work of Douglas alongside other monetary reformers including Fisher, Simons and Soddy. As a compendium of random thoughts on the relationship between finance and economic affairs, the book works beautifully.

The chapter on the debt-money system is on the whole a useful introduction to the history of money and banking. However, the section dealing with Douglas' critique of the relationship between production and distribution of incomes falls into the old trap of being open to both 'under-consumptionist' and inflationary interpretations. Douglas' key proposals for a 'scientific or just price' and a 'national dividend' are separated from the discussion of money by five lengthy chapters. As a result, the national dividend proposals for an income payable to each individual citizen as an inalienable right, based upon the common cultural heritage of past knowledge and skills, is divorced from the monetary reform elements of Douglas' theories. Yet monetary reform is integral to the body of thought which formed social credit theory.

The intervening chapters raise issues of fundamental contemporary concern, including international debt, environmental degradation, unemployment and social breakdown. They contain useful, well-referenced information and the author rightly links them with the power of the financial institutions to determine economic policy and hence the distribution of incomes. However, the theoretical thread is lost amongst an eclectic compilation of heresies and half-baked theories.

The book is nevertheless to be welcomed as a serious attempt to relate monetary reform and income distribution to the problems of policy formation in the wider political economy. Basic/Citizen's Income is one of the many reforms which fit uncomfortably with neo-classical, economic theory. Yet the latter is the current orthodoxy. As a factor of production, labour is regarded as a commodity, the price of which is determined by demand and supply. From the policy maker's point of view, taxation of some form or another is necessary if incomes are to be transferred from rich to poor, but according to neo-classical theory, this distorts the free play of the market.

Armstrong has gone some way towards delineating the existence of an alternative body of economic thought. With reservations, therefore, this readable and well-presented book deserves to be widely read.

Frances Hutchinson is a writer and academic. Her published works include ***Environmental Business Management*** *(McGraw-Hill, 1997) and* ***The Political Economy of Social Credit and Guild Socialism*** *(Routledge, forthcoming).*

Every public policy should be judged by the effect it has on human dignity and the common good.

Cardinal Basil Hume in his *Preface to The Common Good and the Catholic Church's Social Teaching,* 1996.

Books and Papers received

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

The Employment of Lone Parents: A comparison of policy in 20 countries, Jonathan Bradshaw, Steven Kennedy, Majella Kilkey, Sandra Hutton, Anne Corden, Tony Eardley, Hilary Holmes and Joanna Neale, Family Policy Studies Centre, 231 Baker Street, London NW1 6XE, May 1996, 64 pp, £9.50.

The aim of this excellent study is to learn lessons for Britain from comparative research in the European Union, Norway, USA, Australia, New Zealand and Japan, about how lone parents in Britain might be enabled to work outside the home. The risk of poverty is always greater in lone-parent than in two-parent families. There are many reasons for this and their relative importance varies from country to country. However, one outstanding reason is that lone-parent families are less likely to be in paid work and are more likely to depend on safety-net state benefits than two-parent families. In 1990, an estimated 56% of lone parents in the UK had income lower than 50% of the average compared to 3% in Sweden. But the pattern of financial incentives is not a sufficient explanation for variations in employment rates (and living standards) among lone parents. Child-care costs have the closest relationship. What is required, says the report, is "a package of measures". Most important of all is to invest in good quality, flexible and affordable child care. No mention of Citizen's Income, yet it is clear that child care on its own is unlikely to remedy the situation.

Progress, Values and Public Policy, Eds. Brigid Reynolds, S.M. and Seán Healy, S.M.A., Conference of Religious of Ireland, Milltown Park, Dublin, September 1996, 145 pp, ISBN 1 872335 31 4, pbk.

In the last few years economic growth in Ireland has reached unprecedented rates. Employment has grown and inflation has gone down. Yet extensive poverty persists, the number of long-term unemployed has doubled and the gap between rich and poor has widened. This publication addresses the following questions:

- What do we mean by progress?
- Are the official indicators (e.g. growth of Gross Domestic Product) misleading?
- Can social progress indicators be developed?
- How can the tax system be adjusted to ensure sustainable development?
- Is the social welfare system contributing to progress or inhibiting it?

The study ends with a recommendation for a 'Participation Guarantee' (cf Tony Atkinson's *Participation Income*), backed by appropriate public support.

Parenting in the 1990s, Elsa Ferri and Kate Smith, Family Policy Studies Centre, November 1996, 53 pp, ISBN 0 907051 98 7, pbk.

Family life in 1990s Britain is characterised by change, diversity and uncertainty. Alongside demographic change (e.g. increased family breakdown), social and economic changes have taken place which have major implications for family life, not least the nurture and training of children. At the same time, in the social policy context, there has been a growing emphasis on the private responsibility of parents — hence the dearth of childcare provision. Using evidence from the National Child Development Study (a longitudinal birth cohort study which began in 1958) this report seeks to fill some of the gaps in knowledge of parenting today. A key finding is that "parental disconnection from the labour market, or reliance on earnings from part-time work, do not provide an adequate basis for the economic support of dependent children. The most economically disadvantaged families . . . were those in which both parents were unemployed, or the mother was the sole, usually part-time, earner" (p 49). Another key finding is that: "Raising the next generation in today's society is probably more difficult and unsupported than at any previous period . . ." (p 50).

Family Obligations in Europe, Jane Millar and Andrea Warman, Family Policy Studies Centre, November 1996, 56 pp. ISBN 0 907051 97 9, pbk.

Essential reading for anyone interested in social security reform in Europe. This study illuminates the nitty gritty of social security legislation which others ignore, but which help to explain the different attitudes to social security reform between (say) German and British commentators. In some countries (e.g. Germany) the unit of assessment remains the three-generational family, while in the UK it is two-generational .

The Changing Face of Low Pay, Steve Webb, Martin Kemp and Jane Millar, Bath Social Policy Paper No. 25, Centre for the Analysis of Social Policy, University of Bath, Claverton Down, Bath BA2 7AY, November 1996, 52 pp, £5.00, pbk.

Using Family Expenditure Survey data, this paper examines the numbers and characteristics of low-paid employees in Britain over the past twenty-five years, with low pay defined as a gross hourly wage rate less than two-thirds of the median for *all* employees, or £3.87 per hour in 1994-95. Although groups such as young people and women are still the most likely to be found in low paid jobs, the face of low pay is changing, as young people delay entry into the labour force and more married men in the 25-49 year age group are increasingly likely to be low paid. This finding raises obvious questions for public policy in the area of low pay. A limitation of the study is that it excludes the effects of tax on *net* pay. Yet arguably the changed incidence of tax — at the expense of the lower paid and single-wage couples — renders net earnings more relevant than gross earnings.

The Common Good and the Catholic Church's Social Teaching, The Catholic Bishops' Conference of England & Wales, 39 Eccleston Square, London SW1V 1BX, 1996, 35 pp, pbk, £3.60.

"The Church," writes Cardinal Hume, "has the right and the duty to advocate a social order in which the human dignity of all is fostered, and to protest when it is in any way threatened . . . While recognising the importance of wealth creation, the Church denounces any abuses of economic power such as those which deprive employees of what is needed for a decent standard of living" (p 1). CI is not mentioned, yet there is much in this report which indicates that the Catholic Church is deeply concerned about the *status quo.*

Modernity and the State: East, West, Claus Offe, Polity Press, 1996. **See review by Rosalind Stevens-Strohmann, on p 18 of this Bulletin.**

A Basic Income for South Africa?, Jeremy Baskin, *Weekly Mail and Guardian*, 24 January 1997. A brief and lucid presentation of the case for a non-means-tested CI as a strategy for tackling South Africa's poverty and unemployment. Authors address: jmbaskin@wn.apc.org

Short changed: A briefing on cuts in social security running costs, Janet Allbeson, National Association of Citizens Advice Bureaux, Myddelton House, 115-123 Pentonville Road, London N1 9LZ, January 1997, 39 pp.

This briefing concerns the impact on social security benefit claimants of the £200 million savings in running costs made by the Benefit Agency in 1996-97 — savings which are likely to continue as part of the DSS Change Programme proposals. The CAB Service reports dismay at deterioration in service to social security claimants. The drive to reduce running costs, they say, "has pushed the interests of ordinary people . . . to the margins."

Although one of the expected advantages of a Citizen's Income is administrative simplification, no study has as yet been carried out. Yet it is a key issue.

What Price Security? Assessing private insurance for long-term care, income replacement during incapacity, and unemployment for mortgagors, Tania Burchardt, Discussion Paper WSP/129, The Welfare State Programme, STICERD, London School of Economics, February 1997, 80 pp.

This paper provides the background to the analysis in *Private Welfare Insurance and Social Security: Pushing Back the Boundaries*, Tania Burchardt and John Hills, York Publishing Services, 1997. Three case studies are used to examine the potential effects of shifting from collectively-financed to individually-financed welfare, in areas where private provision already supplements state provision: namely care costs in old age, income replacement during long-term sickness or disability, and mortgage payments during interruption of earnings. The paper concludes that private products are expensive and the differentiation of premiums by risk groups (though necessary) sharpens the regressive effect of moving from tax- to premium- financing.

The Cities: A Methodist Report, The Methodist Church and NCH Action For Children, 85 Highbury Park, London N5 IUD, 1997, 258 pp, ISBN 0 900984 56 2, pbk, £10.00.

Drawing on a nation-wide survey and on 'Hearings' in Newcastle, Cardiff, Glasgow and Salford, this report is in the tradition of *Faith in the City* and *Staying in the City.* There is a growing consensus on the need for an integrated approach to the problems of multiple deprivation, and the need in seeking solutions to listen to the voices of the local community. No mention of CI, but acknowledgement that the benefit system has to change.

Unemployment and the Future of Work: An Enquiry for the Churches, Council of Churches for Britain and Ireland (CCBI), Inter-Church House, 35-41 Lower Marsh, London SE1 7RL, 1997, 298 pp, ISBN 0 85 169 238 9, pbk, £8.50.

Is it still true that everyone has a right and a duty to work? Should we tolerate low pay and poor conditions if that enables more people to work? Is full employment still a realistic and appropriate objective? These are some of the questions addressed by the working party which prepared this report. A Full BI (enough to live on) and a Partial BI (not enough to live on) are rejected for the time being, as is a Participation Income (on the grounds that it would be difficult to define), but the CI concept has not been ruled out (p 76). **See article by Andrew Britton, on p 5 of this Bulletin.**

Poverty and wickedness, A.H. Halsey in *PROSPECT*, April 1997. Address: PROSPECT, 4 Bedford Square, London WC1, Tel 0171 255 1278,.

Professor Halsey uses his review of *Charles Murray and the Underclass: The developing debate*, Institute of Economic Affairs, 1996, as an opportunity to focus on Citizen's Income. Halsey castigates Charles Murray for an unclear and unsubstantiated thesis. Although all three of Murray's criteria for the underclass —crime, drop-out from the labour force and illegitimacy — remain high, they are not the monopoly of any particular class. "Ethical socialists", writes Halsey, "confront wickedness with the confidence that government has the duty to provide optimal circumstances, and individuals the duty to do their utmost to be good citizens under all circumstances, favourable or not." While economic liberals seek economic solutions to human sin, "the mainstream tradition of social policy accords potency to politics and sees past, present and future as the outcome of interaction between economy and polity." Today's challenge is how to change our arrangements for the distribution of income in line with technological change, in order to ensure full employment and the more equitable sharing of wealth.

This, writes Halsey, will require a Citizen's Income and he supports his case with references to James Meade, Tony Atkinson and Ralf Dahrendorf. Despite differences between them, they "all aim to switch basic income from work to legal residence." The BI would be paid to every man, woman and child either as a tax credit or in cash, without a means test. The BI would have to start small and increase gradually. The speed with which the amount could be increased would "turn on how fast the electorate could be persuaded to return to progressive taxation, not to the steepness of the 1970s but to, say, a 50 per cent tax on earnings over £60,000 a year."

Under present arrangements many unemployed people are trapped in poverty. BI "would tackle unemployment, facilitate economic growth, strengthen family life, ensure a less divided society and cut down administrative costs." It would also end the debate on the underclass. "Although the wicked will always be with us, such a reform would provide less incentive to crime, drop-out and family breakdown."

Basic Pension *Plus* : Summary of the Proposals, Questions and Answers, Technical Note, Press Conference and Press Release, Department of Social Security, Richmond House, 79 Whitehall, London SW1, 5 March 1997.

Less than two months before the May General Election, the British Government announced major proposals for reform of the UK State pension. Although the results of the General Election mean that these proposals are unlikely to become law, they are worth putting on record. They include:

- *The Personal Fund* : everyone in the new generation would be required to have their own pension fund to finance their basic pension and more.

- *The Rebate* : contributors would receive a rebate from their National Insurance contributions of £9 a week (uprated with inflation). This rebate would be sufficient, over their working lives to build up a fund big enough to pay their basic pension.

- *The Basic Pension Guarantee*: everyone would be guaranteed a pension at least equal to their basic state pension and increased at least in line with inflation.

Readers of this Bulletin will be struck by the use of BI terminology for a reform which would almost certainly have seen the relative living standards of many pensioners fall progressively behind living standards generally.

The crunch issues are not how the proposed basic pension would be financed but how much it would be, how it would be uprated and who would get it.

To maintain relative living standards by comparison with the non-retired population, to protect the poorest pensioners and to remove the pensioner poverty trap, any basic pension needs to be uprated in line with average earnings (not prices) and entitlement to it needs to bebased on years of residence in the UK, not contribution record. *Basic Pension Plus* in no way resembles the Basic Pension Guarantees proposed by Sir Brandon Rhys Williams before his death in 1988. The terminology is misleading. **(See article by Tony Salter on p 9 of this Bulletin).**

Modernising and Improving Social Protection in the European Union, Communication from the Commission, COM(97) 102 final, Brussels, 12.03.1997, 19pp, ISSN 0252-1475, Office for Official Publications of the European Communities, L-2985 Luxembourg.

Publicly funded social protection systems now account for 28% of total EU Gross Domestic Product (GDP). To ensure their continued effectiveness, they must be adapted to changes in the nature of work, the gender balance in working life, the needs of an ageing population and the needs of immigrants. To support the Member States in meeting these challenges, at the end of 1995 the Commission published its *Framework for a European Debate on the Future of Social Protection*. In the light of the resulting discussion, the Commission proposes two items for further analysis:

- *Social protection as a productive factor,* in particular the impact of social protection systems on social cohesion, political stability and economic progress.

- *More employment-friendly social protection systems*

The Commission will also examine how reactive unemployment insurance can be turned into a pro-active employablility insurance. Regarding low and falling birth rates, "The challenge for social protection," says the document, "is not only to achieve equal treatment for women and men, but also to find ways of individualising rights without penalising women who have not taken up paid employment in order to look after their families, as well as new arrangements to facilitate care for children and for older people" (2.4).

In Section 2.4, whilst recognising the difficulties involved, there is a call to adapt social protection to changes in the gender balance; and towards individualisation of rights. This will require new arrangements for reconciling working and family life and gradual implementation of individualisation of rights.

Given the current position of women in the labour market, it is probable that most would lose if survivors' pensions were abolished. A basic old-age pension supplemented by an occupational pension might be the answer (p 16). The paper ends by stressing the need for consultation with a "wider range of participants". The whole issue, it says, will head the agenda of the 1998 European Social Policy Forum. And it ends by drawing attention to the *Social Protection in Europe* report, to be published at the end of 1997.

Here surely is an opportunity for CI supporters across Europe to get their act together, in order to participate in discussions which will influence social security reforms over the next decade.

Report of the Special Parliamentary Committee for the Future, Part 1, "Finland and the future of Europe", Parliament of Finland, FIN–00102 Helsinki, 1997, 75 pp, pbk, English translation available.

The Government of Finland is obliged by its Parliament to submit a report on the future — or forward studies report — once during each parliamentary term. In these reports, the Government defines its perception of the country's future and of the measures necessary over a time span of 5-15 years. Parliament has appointed its own *Committee for the Future* to deliberate on and reply to these reports. A further task of the Committee is to assess the social impacts of technological development on behalf of Parliament. "We must have cultural roots," says the Foreword to this year's report, "but above all we need wings to bear us into the future." Chapter 4, *European values and the European model of society,* is of particular relevance to readers of this Bulletin, in that it includes a critique of 'Citizen's Wage'.

Pathways to a Basic Income, Charles M.A. Clark, John Healy, Justice Commission, Conference of Religious of Ireland, Milltown Park, Dublin 6, April 1997, 87 pp, ISBN 1 872335 34 9, pbk, price £5.

The authors were commissioned by the Justice Commission to examine pathways towards introducing a BI system in Ireland. In particular they were asked to see how the CORI Basic Income Plan, outlined in the CORI publication *Planning for Progress* (1996) could be implemented. Their aim was to introduce a BI system with the minimum amount of disruption and without causing hardship to anyone. To their surprise they found that a BI system could be implemented in Ireland with a much lower tax rate than previously thought necessary. **(See articles by Garret Fitzgerald and Joe Lee; and contribution by Charles Clark to Home and Abroad, elsewhere in this Bulletin).**

Money to Spend as They Wish: The Personal Expenses Allowance in Care Homes, Hermione Parker for Age Concern, Astral House, 1268 London Road, London SW16 4EJ, April 1997, 33 pp, price £2.50.

In the UK every elderly person in residential care whose fees are wholly or partly paid by the State is entitled to a Personal Expenses Allowance (PEA) to cover all their other needs (e.g. clothing, personal care and leisure). During the period April 1996 - April 1997, the PEA was £13.75 a week. This study uses budget standards methodology to examine the adequacy of the PEA. Although by no means immutable, nor in any sense prescriptive, Parker's figures indicate that a PEA in the region of £38 a week would have been necessary to allow residents to reach the 'modest-but-adequate' or 'reasonable' living standard to which most aspire.

The research was carried out under the auspices of the Family Budget Unit, an educational charity based in the Department of Nutrition and Dietetics, King's College, Campden Hill Road, London. The implications of budget standards research for the required levels of a Citizen's Income are worth noting.

The Indivisibility of Risk — the management of employee benefits and care for the elderly, T.A. Salter in *Benefits & Compensation International,* Volume 26, Number 10, June 1997, Pension Publications Ltd, East Wing, Fourth Floor, Hope House, 45 Great Peter Street, London SW1P 3LT.

Tony Salter is a consultant in the employee benefits division of Bacon & Woodrow, the UK member firm of the Woodrow Miliman network. He is also a trustee of Citizen's Income Trust. In his article for the June edition of *B & C International,* he draws attention to the high administration costs of personal pensions (about 20% of contributions paid, compared to 5% or less for the UK State basic pension system) and the unlikelihood that personal pensions will be able to achieve higher investment yields than occupational pension schemes. He then sets out the case for a mixed economy of pension provision, incorporating State and private provision, collective and personal pension systems, pay-as-you-go financing and advance funding.

SPA News, Newsletter of the Social Policy Association, May/June 1997, Department of Social Sciences, Loughborough University, Leicestershire LE11 3TU.

This edition of SPA News includes a series of letters, headed *Election '97,* commenting on pre-Election submissions in the February/March Newsletter by Baroness Seccombe (Conservative), Malcolm Wicks (Labour) and Neil Stockley (Liberal Democrats). In her letter, Hermione Parker criticises all three political parties for lack of imagination. "The maze of laws and regulations which currently passes for a welfare state locks people into claimant roles, adds to unemployment, weakens family life and leaves much poverty unattended to. Yet all we get are promises of more of it. More snoopers, more poverty, more crime, more broken families and fuller prisons. The only reform option I know which might resolve — or at least scale down — the problem is a Citizen's Income (CI). Every legal resident would get it and would be encouraged to build on it through work or savings" (p 20).

The Social Quality of Europe, Paper presented at the Amsterdam Summit, June 1997, by Professor A.B. Atkinson, Nuffield College, Oxford.

Atkinson's paper addresses two main issues. First, why is European social policy subordinated to European economic policy? Second, what concrete steps should be taken now, at the policy level, to give the social dimension equal prominence? Regarding the first issue, Atkinson proposes the addition of a poverty target to the European convergence criteria, the Member States having first accepted a commitment to reduce financial poverty, with the latter measured in an agreed manner. Like the reduction of inflation, reducing poverty should become an explicit policy objective; and policies in all spheres should be tested against their impact on poverty reduction.

Regarding the concrete steps to be taken, Atkinson recommends *experimentation* at the European level. Although the competence of the European Union is limited, the European Community Poverty programmes already include model action projects, which in Atkinson's opinion should be taken further. "We need experiments which are controlled (unlike national policy changes), so that some people are not subjected to the new treatment, and which span more than one country, so that we can eliminate country-specific factors" (p.8).

An obvious candidate for experimentation is Citizen's Income — preferably along the lines of a Participation Income — as an alternative to social assistance. The participation conditions would undoubtedly produce problems. Some people would be ineligible for the CI and there would be behavioural responses, as others adjusted their behaviour in order to qualify. What is needed is evidence about the quantitative significance of such effects.

The Commission should consider setting up CI experiments in a selection of towns across the EU and should monitor the effects over a three year period. Such experiments would demonstrate both the effects of a participation income on social inclusion and its administrative feasibility.

The integration of taxes and benefits for working families with children, Pamela Meadows, Joseph Rowntree Foundation *Policy Options* summary, June 1997, Joseph Rowntree Foundation, The Homestead, 40 Water End, York Y03 6LP, Tel 01904 629241.

This paper examines the case for integrating the tax and benefit systems along the lines of the US Earned Income Tax Credit (EITC). Having commissioned a report on EITC by Professor Jeffrey Liebman of Harvard University, JRF convened two seminars to discuss practical implications for the UK. Further analysis based on these seminars, *The integration of taxes and benefits for working families with children* (ISBN 1 899987 52 5) by Pamela Meadows, and Professor Liebman's report *Lessons about tax-benefit integration from theUS Earned Income Tax Credit Experience* (ISBN 1 899987 53 3) will be published during summer 1997 (price £7.00 each or £10.00 together, plus £1.50 postage), obtainable from York Publishing Services Ltd, Tel: 01904 430033, Fax: 01904 430868.

According to the paper, only three options for achieving integration are feasible:

- The Inland Revenue assesses entitlement to EITC based on taxable income and employers deduct the EITC received from total PAYE due.
- Employers make the assessment based on information provided by the employee, using Inland Revenue calculation instructions.
- The Department of Social Security (DSS) assesses entitlement, based on claims, and instructs employers what to pay.

The problem is that all these options involve a return to the family as the unit of assessment. Additionally, all taxpayers would have to complete a tax return, some labour costs would be passed on to the taxpayer (with increased scope for fraud), some families would lose out and there would be increased complexity.

Why is no mention made of Basic Income as an alternative to EITC? BI is the only reform option currently available which would take the individual as the unit of assessment *and* reduce complexity.

Has the Joseph Rowntree Foundation not heard of Basic Income?

Sharing the costs of childcare, Briefing Paper 4, Daycare Trust, 4 Wild Court, London WC2B 4AU, Tel 0171 405 5617, Fax 0171 831 6632, June 1997, 4 pp, ISBN 1 871088 20 8, £2.00.

In August 1996 only 27,000 families were receiving extra cash because of the Childcare Disregard and the average award was under £19 a week. Only one in 60 lone parents on Family Credit are currently receiving extra cash help for childcare. This is partly because the present Childcare Disregard allows for a maximum childcare cost, per family, of only £60 a week. The Daycare Trust proposes a new Childcare Allowance of up to £70 per child per week. Given the unlikelihood that a CI would include the costs of childcare, this proposal could help to fill the gap.

Do we want an unconditional universal income?, UUI /UBI NELSON, c/o Community Trust Bank House, 19 Alma Street, Nelson, PH. 03-545-7273, New Zealand, 1997 (revised). Sarah Ayre (on behalf of UUI/UBI Nelson) argues that everyone is "individually and collectively responsible for our society and environment".

Beyond Equal Treatment: Social Security in a Changing Europe, Report of Conference of the Irish Presidency of the European Union, Dublin, 10-12 October 1996, available from Department of Social Welfare, Store Street, Dublin 1, Tel: +353 1 704 3848 Fax: +353 1 704 3051, June 1997, 149 pp.

A brief account of this conference was included in CI Bulletin No. 23 (**At Home and Abroad**). Basic Income was on the Conference agenda and some of the key speakers commented favourably. So it is perhaps unsurprising, that CI is mentioned in the Report's final section: *Some conclusions and recommendations from the Conference* (pp 227-229).

The purpose of Conference was to assess the extent to which equal treatment in social security has been achieved and to consider issues which lie beyond it. The opening sessions set the context by emphasising "a labour market in which work patterns are changing and evolving" and "family structures which no longer conform fully to many of the traditional assumptions on which social security systems were based" (p 228). A common problem is the need to reform welfare systems to take account of unpaid work as well as paid employment. Many comfortable assumptions were challenged, and eleven "tentative and less-tentative" conclusions were reached, including the following:

> "While the concept of 'basic income' has many attractions in the context of achieving individual rights to an adequate income, research indicates that it does not provide a panacea for all ills, and that there are practical obstacles to its implementation; nevertheless further research is desirable" (page 229).

Newsletter of the Basic Income European Network (BIEN) No 26, Spring 1997, 20 pp.

Published three times a year, edited by Philippe van Parijs, the newsletter is sent free of charge via the Internet to anyone who requests it by sending the message "subscribe BIEN" to bien@etes.ucl.ac.be. Hard copies can be mailed to any member of BIEN who so wishes. If you wish to become a member of BIEN (until December 1998), mail or e-mail BIEN's secretariat (Chaire Hoover, 3 Place Montesquieu, B-1348 Louvain-la-Neuve, Belgium. Fax: 32-10-473952, bien@etes.ucl.ac.be) the following information: surname; name; institution (if any); full postal address; phone; fax; E-mail; method of payment.

The individualisation of rights would aim to halt the practice of taking account of personal links when ensuring social protection of an individual. It would contribute to bringing social protection in line with legislation governing employment contracts, which considers workers as individuals. More generally, individualisation is in line with the general trend towards a greater autonomy of the individual. In that sense, it goes beyond gender issues and also concerns the relations between parent(s) and children in the light of new family patterns and structures.

Commission of the European Communities, Modernising and improving social protection in the European Union, *COM(97) 102 final, 12.03.1997, p 15.*

VIEWPOINT

New Labour New Millennium
What hope for CI?

Chris Downs

In this Viewpoint piece the author argues that Labour are unlikely to be any better disposed towards Citizen's Income, or increased public provision of anything, than the last Conservative government — unless they can be persuaded to get away from the obsession with competition and take citizenship seriously.

The arrival of a new British government is perhaps a cause for optimism that Citizen's Income (CI) proposals will fall on more receptive ears. The Blair administration is talking about radical welfare reform, although as yet it has few concrete proposals. Prior to the General Election New Labour was so anxious to appear conservative and 'safe' that it gave the appearance of having no new ideas at all. The Commission for Social Justice made no radical proposals when it published its report in 1994; and Chris Smith MP — given *carte blanche* to come up with something new in 1995 — was rather quickly moved out of his job as shadow Social Security Secretary. So it appears there is all to play for.

While this may be true, it has to be acknowledged that in Britain at government level CI is not even being mentioned — it's just not involved in the game, or (to use a sporting metaphor) at best it's on the substitutes' bench. In their Fabian Society paper, *The Future of Pensions*, Peter Townsend and Alan Walker did not consider CI, on the grounds that it "would entail too great a cultural shift for the British Treasury and financial establishment"[1] — precisely the establishment New Labour courted in preparation for government. Additionally, New Labour's attachment to a statutory minimum wage points away from CI towards continuing emphasis on the labour market as the normal source of income for most people.[2]

So the challenge for CI advocates is to get it onto the agenda as quickly as possible. My purpose here is to set out a strategy for achieving this.

Current state of play

So far during the 1990s the debate has centred around two themes:

- Competitiveness
- Crisis in the welfare state

Among certain *cognoscenti* Peter Lilley is widely praised for having saved the UK from the public finance crises that await other European governments. Lilley's foresighted changes have reduced the British government's exposure to the effects of population ageing. Meanwhile the departed Tory administration was able to claim responsibility for Britain's current *relatively* low rate of registered unemployment, by stressing its flexible labour market and enhanced international competitiveness.

And of course the two are linked, because competitiveness is impaired by the high payroll taxes and other work disincentives 'necessarily' accompanying the traditional welfare state. This is a powerful complex. Despite early signs that environmentalism might be the big issue of the 1990s (remember the Rio summit in 1993), that has not been the case. The power of more narrow economic imperatives — jobs and material well-being in the West, survival elsewhere — are proving more important in determining people's voting behaviour.

In Europe, Economic and Monetary Union (EMU) has reinforced the competitiveness / welfare dilemma, as the convergence criteria necessitate further squeezes on public spending. The scope for public sector solutions is further constrained.

So complete has been acceptance of the pro-market agenda, that there appears to be no problem the public sector can solve without a private sector partner. In Britain, but for Labour's victory, it seems likely we would have had incentives added to the welfare system, to encourage take-up of private insurance against the risk of needing long-term care in old age. Given that the cost of care can be as high as the total pension currently received over an individual's entire retirement, the introduction of a funded, private sector solution is a somewhat audacious proposal.

The message conveyed to financial services industry leaders by this kind of thinking, is that the state's welfare provision is to be altered largely to create more space for their own products. Few in the private sector consider the issue from a wider perspective, or look at public and private sector activities together, as forming two halves of a single system for delivering desirable public policy outcomes.[3] Their interests focus more readily on the prospects of tax incentives or means-test waivers to encourage take-up of a private product.

Andrew Dobson's 'Core plus'

Andrew Dobson's Viewpoint article in CI Bulletin No. 23 argues for the reduction of state involvement to 'core' welfare, in order to encourage every individual to acquire a *Personal Welfare Plan (PWP)* , to be offered by the private sector. However, Dobson's core is ill-defined. It is apparently to include health care with "no frills or special amenities", which presumably means no private rooms with TVs or decent food. But the really big issue is not the standard of hotel accommodation, but whether fertility treatment, for instance, should be available on the NHS. And what about long-term care? Dobson goes so far as to suggest that what he describes as 'core welfare' should be contracted out to the private sector via vouchers. I am not aware that any good case for this has so far been developed, certainly the argument against

Pay As You Go (PAYG) is unproven.

There would be complex administration to pay for; the economies of scale available to public monopoly provision would be lost; and the private sector providers would inflate costs by advertising their products. Worse still, the value of Dobson's vouchers would "vary according to individual circumstances", i.e. there would be means-testing — which is precisely what Dobson rightly wants to eradicate as far as possible from welfare provision.

The problem is that Dobson does not consider redistribution on equity grounds — he does not use the term 'redistribution' at all — which is unsurprising given that the one thing the private sector cannot do is to redistribute income in a systematic way consistent with some democratically mandated equity standard.

CI is of course fundamentally about income redistribution. It is not just about avoiding means-testing, as Dobson suggests.[4] There would be no point in introducing a monetary merry-go-round of taxing people and then paying them a CI *unless* some people received more in CIs than they paid in tax, while others received less. Getting CI into the first eleven means getting redistribution into the game plan .

This will not be easy. In the UK income redistribution has perhaps never been a serious strategy. The UK's 'post-war settlement' was basically state-sponsored insurance plus corporatism. Redistributive objectives were conspicuous by their absence and their omission is arguably at the root of the UK's current welfare crisis.

From corporatism to competition

Beveridge warned that the provision of state unemployment insurance would not succeed unless government also took steps to prevent mass unemployment. Demand management and state support for firms to protect employment were the order of the day from 1945 to 1976.[5] The National Insurance (NI) scheme was modelled on private insurance, so that any redistribution it entailed was hidden in the form of cross-subsidy of high risks by low risks; and because of the correlation of certain risks (e.g. unemployment with low earnings potential), such cross-subsidy is likely to result in some *de facto* redistribution according to income.[6]

Corporatism has been vanquished by a combination of unfavourable economic trends — rendering demand management impotent — plus a political movement against trade union power. The new creed is competition — the creed of the consumer. The consumer is king and we live well or lose our jobs according to our ability to produce what the consumer wants as cheaply as possible.

While demand management and corporatism have been jettisoned, national insurance has been left to 'wither on the vine'. This is being done by the slow but simple process of uprating benefit amounts in line with prices instead of earnings. Year by year they represent a smaller proportion of average earnings, until in due course they will become irrelevant. Additionally, NI unemployment benefit has been restricted to six months under the new job seeker's allowance and invalidity benefit has been replaced by incapacity benefit, with tougher eligibility criteria. The result is that claimants are increasingly forced to seek top-ups in the form of means-tested benefits — which is poor relief by another name.

What is wrong with national insurance is not that it is a pay-as-you-go (PAYG) system, but rather that it is based on private insurance principles, resulting in two major flaws:

- It is not explicit in its redistributive objectives
- Its requirement for funding by a pseudo-insurance premium precludes raising the necessary tax revenues by any means other than a damaging pay-roll tax.

This is not the conventional wisdom. Yet so long as concern remains inappropriately focused on the PAYG issue, the direction of change in policy will remain away from the public sector towards private sector 'competitive' provision. That means away from CI.

From competition to social justice

What is needed to get CI on to the policy agenda is to move on from the present atmosphere where competition is all, to an atmosphere where citizenship carries more weight. If corporatism involved defending the interests of workers, and competitiveness was the creed of the consumer, we now need to promote the rights of the citizen.

The problem is that most people have been led to believe that the only route to material well-being is through competition in the labour market; that the only way to protect jobs is through international competitiveness (and low non-wage labour costs); and that individuals are only entitled to what they can extract from the market for their labour. This is a view of society hollowed out so that only the visible and measurable economic activity of market transactions appears to matter. A new view of property rights is needed.

We don't start from zero with only the variable (and perhaps reducing) benefit of a free education and the manna of our inheritance. We are and remain members of the societies we live in and we have a call on the wealth and income of those societies beyond that which we can extract in return for our paid labour. Such a view is not alien to the British populace, but it has become unfashionable or perhaps quashed by the force of neo-classical economics.

If this view of society were to create the demand for overtly redistributive welfare, the question would be how best to supply that welfare. We must respond to economists' concerns about the cost of welfare by correctly identifying its cost, which is not the amount of revenue raised in tax to pay for it, but the output lost as a result of the work not done, due to disincentives created in raising that revenue, e.g. through the poverty and unemployment traps. The link between welfare and payroll tax funding must be broken, by abandoning the notion of social insurance and ensuring that the revenue needed is raised in the least costly way possible.

The strategy for CI should be first to get these issues into the public debate, then to show that CI can make this view of a more civilised and just society operational.

Chris Downs is Senior Lecturer in Economics & Financial Services at the Southampton Institute. From 1994 - 1996 he was Manager of Political and Economic Research at the Association of British Insurers.

Notes and references

1 Peter Townsend and Alan Walker, *The Future of Pensions: Revitalising National Insurance* , Fabian Society Discussion Paper No. 22, Fabian Society, 1995.

2 In CI Bulletin No 21, February 1996, Hermione Parker and Holly Sutherland showed that a minimum wage introduced in conjunction with a small BI would reduce the number of families at risk of the poverty trap more effectively than a minimum wage on its own.

3 An attempt was made to do this in *Risk, Insurance and Welfare*, published by the Association of British Insurers in 1995.

4 Andrew Dobson, *Core Plus: Towards a more logical welfare structure,* CI Bulletin 23, February 1997

5 Demand management refers to the management of aggregate demand in the economy, to ensure reasonably close to full employment of labour — a policy forever associated with the name of Keynes. In 1976 the then Prime Minister Jim Callaghan said that it was no longer possible to spend your way out of recession by increasing aggregate demand, and that apparently successful previous attempts to do so were probably delusions, leading to successive and cumulative increases in inflation.

6 Some other aspects of national insurance (NI) may redistribute upwards, e.g. the National Health Service; for it has been argued that the NHS mainly benefits the longer-lived, more mobile and demanding middle classes. Of course, the NHS was only ever partly funded by NI contributions.

> *It would be unwise, however, to rule out a move to Citizen's Income in the future: if it turns out to be the case that earnings simply cannot provide a stable income for a growing proportion of people then the notion of some guaranteed income, outside the labour market, could become increasingly attractive.*
>
> *Unemployment and the Future of Work,* Council of Churches for Britain and Ireland, p. 76)

Excerpts from the Press

Hermione Parker, The Irish Times, 17 April 1997

Sir, — Thank you for your excellent coverage of CORI's proposed "basic income for all" scheme. Would that the London *Times* were equally receptive to new ideas! Instead, like most of the British media, it is locked into the fallacy that basic income is unaffordable.

This fallacy arises from over-reliance on computer models which compare the costs of different policy options in year one, with no account taken of their different long-term impacts. In the early years, there is little doubt that a universal basic-income system would result in some people paying more tax than they might reasonably have expected to pay under the present tax and social security systems.

Over time, however, as the advantages of basic income worked their way through the system — stronger families, improved social cohesion, a more flexible workforce, increased incentives to work and to save, and more opportunities for young people to study, train and work, the opposite is likely to be the case.

It is to be hoped that those engaged in the forthcoming study of basic-income proposals — agreed by your Government as part of the Partnership 2000 negotiations — will find some way of feeding into their computer models the costs in terms of escalating public expenditures and reduced tax revenues of sticking with the existing tax and social security systems. Those costs include unacceptably high levels of youth unemployment, crime and family breakdown and the effects of chronic stress on health care costs.

Such costings would look very different to any produced in the past, either in Ireland or the United Kingdom. — Yours, etc.,

HERMIONE PARKER
Editor, *Citizen's Income Bulletin,*

Professor A.B. Atkinson, The Observer, 7 June 1977

. . . The current British strategy [of ever-increasing dependence on means-tested benefits] makes no sense. A programme of 'welfare to work' cannot be based on a system of means-testing.

Similarly, people can feel little encouragement to take out private pensions if the only result is for their Income Support to be reduced pound for pound. Means-testing in this form is not only economically inefficient but also widely regarded as unfair. People who work or save should get something for their efforts — a principle which applies as much at the bottom as at the top.

What is more, this safety net is not fully effective. Many people still live on low incomes. Judged by the European Commission standard of half average incomes, the proportion of income poverty in the UK has more than doubled since 1979. There has been a massive rise in poverty — much larger than in any other European Union country. Figures published during the election showed poverty higher than in any other country apart from Portugal.

There are alternatives. Some are more attractive at first sight than on closer examination. People propose a merger of the tax and benefit systems, with income tax assessments used to determine benefit entitlements. But the two systems were designed for different purposes. For instance, income tax is now largely based on individual circumstances, rather than those of the family as a whole.

Other ideas seem more worthy of study by the Government. Social security does not need to be delivered by state agencies. Benefits could be the responsibility of bodies more directly accountable to their members and which allow greater flexibility of individual choice. We can learn from the experience of other countries in this respect.

One of the central issues which new ministers need to address is whether they will go for some form of 'basic' or 'citizen's' income. In its pure form, the citizen's income would replace all existing social insurance and assistance benefits with a single payment, paid unconditionally and on an individual basis, without a means test. However, it is a mistake to see citizen's income as an alternative to social insurance. It is more productive to see citizen's income as complementary, reducing dependence on means-tested benefits.

But this is not enough to ensure political support. Despite the attention which citizen's income has been given, and despite finding supporters in all parties, the scheme has not risen to the top of the political agenda. A major reason for opposition to citizen's income is the fact that it is unconditional: some people worry that it will lead to dependency.

I believe therefore that the citizen's income should be conditional on participation in society. The definition of 'participation' would include people at work, those retired, sick or unemployed; in education or training; and caring for dependents.

As the examples make clear, the condition is not paid work; it is a wider definition of social contribution.

For both Britain and our European neighbours, the welfare state should, and can, take new directions in the next century. There is no need to repeat the mistakes of the past.

Letters page

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

From Rob George:

A common objection to BI is that "It would cost too much!". In *Surfers' Saviour* (CI Bulletin 22) Brian Barry speculates that "the objection which most often occurs to people who hear about CI for the first time is that they do not see why the fruits of productive labour should go to subsidise the voluntarily unemployed." Elsewhere in the same article Barry sketches the outline of what I would call a *Heritage of Humanity* argument for BI and asserts that "we would easily be able to establish the case for a maximum CI" on the basis of this principle. Humanity appears to need it and it is, arguably, just and cost-effective. The first question is how best to pay for it. Another question (seldom discussed) is who should decide its magnitude and how to set it democratically.

One of John Rawls' contributions to the debate was his introduction of the Malibu surfer metaphor. Another was his conclusion, presented in his *Theory of Justice*, that one of the necessary supporting institutions for a just distribution of "primary goods" required that "the government guarantees a social minimum either by family allowances and special payments . . . or more systematically by such devices as a graded income supplement (a so-called negative income tax)."

It would be interesting to know how Rawls would finance these public funds for the "deserving" citizens of a just and democratic society. Arguing for institutions that ensure "similar chances of education and culture for persons similarly motivated," he warns that "It is these institutions that are put in jeopardy when inequalities of wealth exceed a certain limit . . . The taxes and enactments of the distribution branch are to prevent this limit from being exceeded. Naturally, where this limit lies is a matter of political judgement."

Others are thinking along similar lines. "Taxation has to be rehabilitated", writes Tony Atkinson in *Incomes and the Welfare State*. "Progress will only come if sufficient people are willing to say that the present state of affairs is unacceptable and that there has to be redistribution." Then there is Robert van der Veen's poignant conclusion in CI Bulletin 23 that "the behavioural impact of any given level of BI . . . depends crucially on the financing method used – a point that is usually overlooked . . ."

A system in which some form of lower limit on guaranteed personal income and an upper limit on allowable personal wealth are set democratically is referred to as Socio-economic Democracy. Its properties have been studied by this writer since 1969 and are described in the forth-coming book *Socioeconomic Democracy: An advanced Socioeconomic system.*

Sincerely

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FUTURE OF THE BULLETIN

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

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