Citizen's Income

newsletter

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Contents

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Citizen's Income Trust

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This edition of the Citizen's Income Newsletter has pensions and the needs of older people as its theme. This group presents a special challenge to advocates of welfare reform and is also the group where current policy is closest to a guaranteed basic income.

The most recent development in the debate and the impetus behind this edition is the Child Support, Pensions and Social Security Act, which received Royal assent on 28 July 2000. Articles in this edition examine how the Government's plans will impact on pensioners.

Lynne Jones looks at how the combination of Basic State Pension, Second State Pension and Occupational Pension will affect those who are least able to choose.

As it stands pensioners are set to see an increase in the minimum income guarantee (MIG) before the election. Set at £78.45, it is due to rise to about £82 next April.

The problem with the MIG is that pensioners still have to apply to Department of Social Services to get this benefit; the recent advertising campaign features Dame Thora Hird, who hints at the difficulties and stigma attached to the process. In general, means-testing excludes no matter how it is dressed up.

A Citizen's Income would, of course, be unconditional and give pensioners a dependable income in place of the piecemeal and patronising multitude of headline-handouts that have come with the current system.

Stuart Duffin reports on the Alaska Permanent Fund, which sets a pathway for funding a basic income for all based on a public savings account model.

Another highlight of this issue is the press extract from Sir Samuel Brittan's article, which shows that a Basic Income is being talked about on a regular basis by government advisers. It also proves that the economic analysis from "Stumbling Towards a Basic Income" (pointing to a Basic Income as a consequence of current government policy), has been accepted by leading economists.

CI Leader:

Why the Government should think again on pensions

Lynne Jones MP, Birmingham Selly Oak

The Government says that it wants to reduce the number of pensioners who, even after a lifetime's work, currently have to rely on means-tested benefits. The plan is to phase out the state earnings-related pension scheme (SERPS) and introduce a new State Second Pension (S2P) which will be twice as generous to those with incomes below a Lower Earnings Threshold (£9,500 at present value) thus giving more help to low earners for whom private second pensions are not seen as an option.

Initially, those with higher incomes who are not contracted out of SERPS because they have an occupational or other approved private pension, will not be worse off under the new arrangements, but within a few years the second pension will become flat rate whilst contracted out rebates will remain earnings-linked. In this way, the Government will encourage moderate earners to opt for private pensions. Government approved Stakeholder Pensions with a maximum 1% administration fee are being put forward as a better bet than discredited private pensions which have no such limit. Even so, a 1% charging regime eats up 25% of the pension fund.

The State Second Pension has been promoted as a replacement for SERPS that will eventually double the benefits of low earners. Particularly welcomed has been the proposal to provide contribution credits to those with interruptions in their working life because of disability or full-time caring responsibilities.

In reality, however, the new state pension does little more than start to fill the gap left by a shrinking Basic State Pension (BSP) and the much-lauded help for carers actually has less coverage than the Home Responsibilities Protection for the basic scheme. It does not, therefore, justify or compensate for the abolition of SERPS and should, more accurately, be seen as a replacement for the indexation to earnings of the BSP.

Projections by the Pension Provisions Group of experts, appointed by the Government to advise on pensions policy, show that both state pensions combined will not provide the same proportion of average earnings (over 20%) that was provided by the basic pension alone before the Tories abolished the earnings link. The lack of ambition in the pension reform plans for those that the Government says that it most wants to help is clearly illustrated by the example given in last September's DSS publication "Opportunities for All" of a man earning wages of £300 a week which rise in line with average earnings for his working life of 46 years. The Government says that, when he retires at 65 in 2051, he will be the equivalent of £15 better off. In reality, he is unlikely to achieve an unbroken work record and so would probably receive much less than even this small sum.

On present proposals in the Pensions Bill currently being debated in Parliament, there is little chance of the Government achieving its aim of reducing pensioners' reliance on means-tested benefit.

Ironically, the welcome decision to increase the level of income support for pensioners (redesignated as the Minimum Income Guarantee or MIG) and to aim to index annual increases to earnings rather than prices, compounds the problem.

In a written Parliamentary Question, I was told by the Pensions Minister that, assuming that earnings continue to grow 1.5% faster than prices, it will not be until 2038 that everyone who has worked and contributed throughout a 49-year working life will receive a combined state pension above the level of the Minimum Income Guarantee. Even after all that time, the achievement is likely to be short-lived as indexation will be pegged to prices whilst the intention is that means-tested benefits will rise at the same rate as earnings; our man in the example given above would soon be no better off than had he relied on income support. The Pensions Provision Group comments "Many of today's adults of working age will have to rely on means-tested benefits in retirement to a greater extent than today's pensioners".

Despite the fact that the majority of respondents to Government consultations on pensions want to see the BSP increased to at least the level of income support, so far the Government is maintaining the nonsensical position that our manifesto commitment to retain the basic pension as "the foundation of pension provision" can be honoured whilst sitting idly by allowing that foundation to erode away. Thanks to pressure from groups such as Age Concern and the Pensioners' Convention, ministers are clearly conscious of charges that they are not doing enough for today's pensioners, hence the winter fuel addition and free TV licences for the over-75s. However, these one-off additions will do nothing to reduce dependence of future pensioners on means-tested benefits. Furthermore, the continued reliance on means-testing will discourage those on fairly modest incomes from saving and investing in funded pensions because they will be little or no better off than had they relied on the State.

Research carried out both by Nat West and Pearl on attitudes of unskilled and semi-skilled workers shows how difficult it will be to persuade modest earners in the £9,500 to £21,500 target band to put their hard-earned money into a pension scheme without a guarantee as to the final outcome. The Institute for Fiscal Studies, amongst others, has questioned the wisdom of the Government pushing such people towards personal pensions when they would be better advised to put any savings into other assets, which would be disregarded when assessing entitlement to benefits. Who, they ask, would be liable if a selected provider of a stakeholder pension turned out to have a poor performance? As Watson Wyatt have pointed out, the State could end up paying generous rebates, costing far more than S2P foregone, and then find itself paying out a second time in income support through the Minimum Income Guarantee. It is now becoming obvious that if the Government wants its reforms to last, it must increase the basic pension to at least the level of the MIG. This would cost about £2 billion extra but is affordable, given the £5 billion surplus in the National Insurance fund.

The Government must also take urgent advice on measures to simplify the arrangements for second pensions, which are now horrendously more complex than the system they are to replace. The only guarantee that successive governments will maintain any system is that beneficiaries understand it. Many in the Labour Party still believe that revitalisation of SERPS, perhaps administered by independent trustees to stop future Governments watering it down again, with annual statements explaining entitlements and credits for carers, would be the best means of assisting those with intermittent work patterns or frequent job changes. The burden of a growing ageing population on future generations is overstated, given the growth in productivity of the younger workforce that the Government says it is determined to improve upon. Also, for reasons explained above, the cost is likely to be less than the additional £16.5 billion a year the Government projects for the new second pension and enhanced contracting out rebates, let alone the cost of income support if stakeholder pensions fail to perform.

SERPS, combined with a basic pension that retains its value, has also been a sure foundation for the development of all that is good in private sector pensions in this country. In contrast, there is a real worry amongst pension providers, backed up by the CBI, that the overall effect of the changes will be a lessening of pensions provision rather than an increase. If this happens, the industry has only itself to blame. Anticipating extra business when it thought that stakeholder pensions would be made compulsory, the industry failed to defend SERPS. Its abolition now seems inevitable despite a manifesto commitment to retain it. Efforts must now be directed in support of a decent basic state pension.

Jeffrey R. Brown

Jeffrey R. Brown is Assistant Professor of Public Policy at Harvard University's John F. Kennedy School of Government, and a Faculty Research Fellow of the National Bureau of Economic Research

As baby boomers approach retirement, individuals and policymakers are increasingly concerned about retirement income security. Thanks to dramatic advances in life expectancy over the last century, today's typical 65-year old man and woman can expect, on average, to live to ages 81 and 85 respectively. Perhaps even more impressive, over 17 percent of 65-year old men and over 31 percent of 65-year old women are expected to live to age 90 or beyond. Most people would agree with President Clinton that increasing life expectancy is "something wonderful." However, *uncertainty* about length of life carries the risk that individuals may outlive their resources and be forced to substantially reduce their living standards at advanced ages.

Fortunately, financial products exist that allow individuals to protect themselves from this risk. In particular, a *life annuity* is an insurance product that pays out a periodic (e.g. monthly) sum of income that lasts for life, in exchange for an up-front premium charge. The primary appeal of the life annuity is that it offers retirees the opportunity to insure against the risk of outliving their assets by exchanging these assets for a lifelong stream of guaranteed income.

In the United States, the two primary sources of life annuities for most retirees are the Social Security system and employer-provided, defined benefit (DB) pension plans. The first and most important of these, the Social Security system, is facing significant future imbalances that have led to numerous proposals for reform, including supplementing or partially replacing the existing system with an individual accounts programme. The second of these sources, employer-provided pensions, is undergoing a dramatic shift towards defined contribution (DC) plans, in which over 70 percent of participants are not even offered a life annuity as a payout option. As the U.S. retirement landscape shifts to one that places more emphasis on self-directed accounts, it is important to consider the impact of these changes on retirees' ability to adequately protect against the risk of outliving their resources.

An audit of the growing body of research on the important role of annuities in the U.S. retirement system yields five policy-relevant conclusions:

- *Inflation-protected life annuities should be a central component of any retirement income system that seeks to provide retirement income security*. If individuals do not have access to annuities, they must trade off two risks. First, if they consume too aggressively, they risk running out of resources. Secondly, if they consume too conservatively, they forgo consumption opportunities and thus have a lower standard of living. Life annuities simultaneously solve each of these problems and thus offer substantial benefits to retirees. These annuities should be indexed to inflation to protect retirees from fluctuations and declines in the real purchasing power of their retirement income. Even a relatively modest annual inflation rate of 3 percent will cut the real purchasing power of a fixed nominal income stream by 45 percent in 20 years.
- *Existing public policy towards private pensions does not encourage annuitization of private retirement resources*. Historically, most employees covered by pension plans were participants in defined benefit plans. According to federal law, these plans must "provide systematically for the payment of definitely determinable benefits to [a firm's] employees over a period of years, usually for life, after retirement," a requirement that is typically met by paying benefits as an annuity. In contrast, defined contribution plans, most notably including the fast-growing 401(k) plans, are under no such obligation to pay benefits as a life annuity, or even to offer participants the option to annuitize. As a result, over 70 percent of 401(k) plan participants lack a payout option that insures them against longevity risk.

- *The existing Social Security system is currently the only meaningful source of inflation-indexed annuities for most U.S. households, although the recent introduction of indexed government bonds should allow private insurance companies to offer these products in the future.* Social Security benefits are indexed to the Consumer Price Index, and thus protect the purchasing power of retiree benefits. Defined benefit plans, on the other hand, rarely index benefits, and most individually-purchased annuities provide a level nominal payout for life, thus subjecting retirees to significant inflation risk. However, the availability since 1997 of Treasury Inflation Protected Securities (TIPS) now provides private insurance companies with an inflation-linked asset with which to underwrite inflation-indexed annuities. While a significant market in inflation-indexed annuities has so far failed to emerge, such a market could develop if pension or Social Security reforms stimulated sufficient demand for these products.
- *Individual accounts proposals for reforming Social Security should consider mandating a minimum amount of annuitization in order to minimise old-age poverty and reliance on means-tested government programs.* In the absence of an annuity mandate, retirees who choose not to annuitize would not be protected against longevity risk, thus increasing the likelihood that these individuals will run out of money before they die. In order to avoid rising poverty rates among the elderly and increased reliance on Supplemental Security Income or other similar programmes, some level of mandatory annuitization is desirable. The annuity mandate would also need to consider the income security of spouses. One approach is to mandate the use of joint-and-survivor annuities that continue to pay benefits to a surviving spouse.
- *Because an annuity mandate may have undesirable distributional effects, policy-makers 1) should be careful not to over-annuitize households beyond an amount sufficient to prevent poverty; and 2) may wish to consider policies to offset the redistribution.* Mandatory annuitization can result in substantial redistribution due to the fact that lower-income people tend to die younger than higher-income people. As such, these implicit financial transfers are often away from economically disadvantaged groups and towards groups that are better off financially. This is true in any mandatory annuitization system, including the current Social Security system. However, the progressive benefit structure of Social Security is largely effective at offsetting this reverse redistribution. An individual accounts system can also address the redistribution problem directly through a progressive benefit structure or a system of government matching contributions, although not all proposals consider this issue. Importantly, other methods of reducing redistribution, such as offering *period certain* guarantees (which provide additional payments to a beneficiary if the insured individual dies shortly after annuitization), often do so at the cost of reduced insurance provision.

In the coming years, policymakers in the United States will be faced with many decisions that will impact the nation's public and private retirement income systems. Numerous proposals exist to address the financial stability of the Social Security system, and many of these proposals call for some form of individual accounts. While many economic and political issues are relevant to this debate, it is important not to forget that one essential element of ensuring lifelong retirement income security is to provide adequate insurance against the financial risks of longevity. Regardless of whether Social Security in the year 2050 more closely resembles the existing system or an individual accounts system, the provision of inflation-protected, annuitized income should continue to play a central role.

CI Networks

Alaska Permanent Fund

Alaska for about the last quarter of a century has been delivering a basic income to all residents of one year standing. During the construction of the trans-Alaska pipeline in the 1970's, Alaskans knew that they were about to receive huge oil revenues. So in 1976, they voted to create the Permanent Fund to ensure that Alaska would get some permanent benefits. The Permanent Fund was created with three purposes:

(1) to provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans

(2) to maintain safety of principal while maximising total return

(3) to be a savings device managed to allow maximum use of disposable income for purposes designated by law

The Fund has grown from a zero balance in 1976 to more than $28.1 billion as of June 30, 2000. In the United States, the Permanent Fund is larger than any single endowment fund, private foundation, or union pension trust and it is delivering for the people of Alaska.

For more information on the Alaska Permanent Fund, see www.apfc.org ***or write to Alaska Permanent Fund,*** **: 801 W. 10th St., Suite 302 Juneau, Alaska 99801**

Nearly 18 percent of the $45.8 billion received in the state oil revenues has been saved since 1976. Alaska is one of the few government entities with a public savings account, it is the only one that pays dividends each year to all residents. All Alaskans who have been residents for at least one year are treated exactly the same: children or adults, young or old, rich or poor, urban or rural; all qualified Alaskans may share equally in the Fund's good fortune. The dividend for Alaskan's in the year 2000 is $1963.86.

Alaskan legislature decides how Fund income is used. Currently, the legislature does two things with the annual income of the Permanent Fund: it saves part for the future generations of Alaskans; and spends half on the current generation. The part saved for the future not only builds the Fund's size, it also helps protect the Fund against the effects of inflation. The half paid out each year goes towards a distribution of dividends to all qualified Alaskans. The Fund has earned about $24 billion in net income since the Fund received its first deposit in 1977. It has achieved an annualised real rate of return since 1977 of approximately 10 percent per year, and a total rate of return of approximately 12 percent per year.

The Permanent Fund is managed first for the protection of principal, and second to produce income. The Board of Trustees' goal is to earn slightly better-than-average rates of return with slightly below-average levels of risk.

Success of the fund is based on robust legislation. When the voters amended the state constitution, they created an entity that could not be abolished except by another amendment by another vote of the people. Neither executive, nor legislative, nor judicial action could serve to abolish what the people had created. Legislative change is difficult. It is necessary that all changes to the management act of the Fund be adopted by both houses of the legislative branch and survive scrutiny and a possible veto. The process is slow, open and deliberative.

Although the Fund is an integral part of state government, it is managed by the Alaska Permanent Fund Corporation (APFC)—a separate and independent instrumentality of state government. A six-member, governor-appointed Board of Trustees sets policies for the day-to-day management of the APFC. In this way, the savings functions of the Fund are separated from the spending functions of the state.

Since every person in Alaska with qualifying 12-month residency is entitled to a portion of each year's earnings, there is strong interest in the Fund's operation and investment activities. Further, earnings of the Fund undergo special public scrutiny since any expenditure of such earnings must be subject to the legislative appropriation process. Finally, proposed legislative changes to the management act that may have a bearing on risk and level of earnings (which can affect dividends) also attract public attention.

The best thing about the Permanent Fund is that it's working as it was intended. It has become large, and the people of Alaska have a real ownership in it and a real relationship with the fund. It has provided a focus for democratic participation and facilitated the promotion of income security. As a result, Alaska has managed to save a significant percentage of non-renewable oil wealth. The Fund is making a positive and significant social and economic contribution to this state. It is providing tangible benefits for Alaskans today, and if continues to manage wealth prudently and responsibly, the Fund will be an important and renewable source of wealth for the future.

CI Reviews

Author:
Parker, H. (ed)
Title:
Low Cost but Acceptable Incomes for Older People: A minimum income standard for households aged 54-74 years in the UK
Published by:
Policy Press
ISBN 1861342144
Paperback - 166 pp
price £19.99
(9 February 2000)
Reviewed by:
C. Cross

How much does it cost older people, living in the UK, to reach an acceptable living standard and avoid social exclusion?

Michael Nelson, Nina Oldfield, Julie Dallison, Sandra Hutton, Barbara Hegan, Sophia Paterakis, Holly Sutherland, Marilyn Thirlway
(Hermione Parker was editor of the CI Bulletin throughout its production).

The report aims to:

* stimulate debate about the incomes required to avoid poverty.
* inform Government decision making.
* introduce readers to the method of calculating living costs called budget standards.

Living costs of men and women aged 65-74 years are estimated at a standard called Low Cost but Acceptable (LCA) and defined as the poverty threshold. Budgets are presented for single women, single men and couples, both as local authority tenants and as owner-occupiers (at January 1999).

The report has essential information for individuals and organisations concerned with the well-being of older people, including: central and local government; the pensions industry; employers; residential homes; social services; trade unions; voluntary organisations; and older people themselves.

Outside the UK, budget standards serve as benchmarks for social policy, personal taxation, life insurance, pensions, money advice, debt orders and many other purposes. The most widely used standard, called Modest-But-Adequate (MBA) or Reasonable, measures the standard at which most people aim: well clear of poverty, but well below affluence. In 1995 and 1997, the Family Budget Unit produced pensioner budgets at MBA level and found it beyond the reach of most UK older people.

LCA is sufficient to provide a healthy diet, material security, social participation and a sense of control. Accepted standards for nutrition, housing, warmth, clothing and personal care are used. The food budgets were prepared in the Department of Nutrition and Dietetics, King's College London; and the research was assisted by discussion groups composed of low-income adults from the relevant age groups. First the required expenditures for each household type are calculated, then they are compared with incomes obtained from Income Support (IS) and National Insurance (NI) pensions.

Having calculated older people's requirements to avoid poverty, and having shown income shortfalls of up to £80 a week (for couples receiving the basic NI pension), the report concludes with four main policy recommendations:

1 **Swift action by Government** to show the goods and services that social security benefits will buy (The Guardian, 3 August 2000 suggests that pensioners need £90 per week to live on,)
2 **A national debate** on living costs and living standards
3 **Cross-party support** for scientific estimates of human need.
4 **Living standard impact statements** to accompany all policy proposals.

Author:
David Jenkins

Title:
Market Whys and Human Wherefores

Published by:
Continuum Publishing Group

ISBN 0304706086
Paperback - 244 pp
price £16.99
(18 November, 1999)

Reviewed by:
Duncan Burbidge, CISC

Misgivings about global capitalism and the neo-liberal ideology are gathering momentum and this book contributes significantly to the debate. It starts by analysing the language and claims of free market enthusiasts and goes on to ask why we should be content with reliance on the price system of distribution, when there is no direct relation to people in their particular reality.

The justification that the free market 'works better than anything else we have come up with' is challenged both semantically and ontologically. It is challenged semantically in that the justification relies on a concept of productivity that is defined in terms compatible with results delivered, and ontologically, because it implies a dialectical reality whereby systems battle for supremacy with each dominant theory replacing the one before—the extended implication being that because global capitalism is now dominant, it is better.

Although the book covers essential ground, there are too many false starts and too much repeated incredulity. The book sees the current belief in the free market as akin to a doctrinal faith and suggests the alternative.

Ultimately, the former Bishop of Durham concludes that the most promising exit from the vicious circle of materialism is to be found via the unifying effect and energy that a new morality can provide. He finishes with a message of hope that it is up to us to find realistically shared goals and a sense of community, that only these will allow genuine progress instead of increased diversity.

CI Partnerships

Author:
Stuart Duffin

Title:
CI Education: Citizenship, Economy and Society

Citizen's Income Study Centre will be entering into partnerships with several higher education institutions to provide a teaching and learning programme focused on Citizenship, Economy and Society. The programmes can be delivered locally or at a distance over the web.

So what's it all about? – Some information on Citizen's Income. NO .... Income is crucial to both the national economy and the general welfare of the community. Welfare policy workers need to be aware of the alternative ways of meeting the requirements of the service. Consequently, better-informed decisions can be taken on the long-term allocation of resources, coupled with a better appreciation of the economic and social implications of different levels of welfare and taxation expenditure. This will help to develop, promote and communicate the debate about income security and the links between being a citizen, the influence of economic forces and the impacts on society at large.

Economies are social phenomena. Any discussion on economics must discuss not only minimum standards for people, but issues covering adequacy and assurance. The basic aim of an ethical economy must be to alleviate poverty and to spread the risks amongst citizens over their life spans. This may be achieved through social protection, which, it can be argued, is a state's responsibility. However, here are no easy solutions; all solutions contain risk, but systems and schemes which connect citizens to the economy and society must promote guardianship and need to balance and minimise that risk. Any economic activity is socially embedded and requires social regulation. Yet, if it is to be trusted, our approach to integrating social and economic policy must adjust to an environment containing:

- New technologies;
- Economic globalisation;
- New family and labour market structures and
- An increasingly aware and critical public.

However powerful economic and social forces may seem, however much they challenge society, they always impact on the individual, who must react confidently to these changes.

Our education programme will critically appraise these connections with a view to analysing the role of an income security policy, which recognises that:

- Citizen participation is a predominant feature of the political, economic and cultural life of society.
- Private action for the public good must work in partnership with government, communities and business.
- A healthy society is one in which there is an equitable relationship among citizens, their associations, government and business.

Income security strengthens community action and civil society. It facilitates an alliance of citizens and their associations, to help advance regional and local agendas of common initiatives to strengthen capacity.

The programme on Citizenship, Economy and Society will facilitate and establish dialogue, exchange information, develop understanding and identity on the dynamics of tax and benefit. It will promote co-operation and communication within society, strengthening the visibility and understanding of society, while working to develop more supportive policies and practices and put forward suggestions for self-sustaining and creative resource mechanisms through Citizen's Income Policy structure.

. . . And, after all that, the programme will change how we think about our role in the economy and society.

CI News

Stumbling Towards a Good Idea

Author:
Samuel Brittan

Publication:
Financial Times

Date:
Thursday 17th August

A government adviser friend always greets me with two questions: "How do you think we are doing?" (meaning the economy), and: "Can't you see we are moving towards Basic Income?"

My answer to the first is: "The economy is doing quite well" - it can't all just be due to the measures of a government elected just over three years ago. My interlocutor knows enough about lags to see this.

The answer to the second question is a little more difficult but has to be "Not quite". The adviser has in mind the Working Families Tax Credit - that is, top-up pay for wage earners with children who take relatively low-paid work rather than stay on the dole - and its possible extensions.

A Basic Income means an unconditional payment to every adult irrespective of efforts to find employment. It stands in contradiction to New Labour's emphasis on paid work as the gateway out of social exclusion.

The best way of describing Labour's present aim is that of a minimum income for those who work. I am afraid this is known in the jargon as a Labour Market Participation Income (LMPI). A new study shows, however, that the inherent difficulties of taking the present approach further is likely to lead towards a Basic Income and away from the present puritanical obsession with paid work. (Stumbling Towards Basic Income, by Jordan, Agulnik, Burbidge and Duffin, Citizen's Income Study Centre, London School of Economics.)

The authors put a lot of emphasis on pressures from Labour activists, voluntary groups, "social entrepreneurs" and the like. They forget that there is another strand of support for a Basic Income from supporters of capitalism and private property who believe that the only thing wrong with "unearned income" is that too few of us have it. These supporters see advantages in the "modest competence", which gave the old European bourgeoisie a degree of independence and saved them from being complete wage slaves, and would like to extend these gains to all.

The authors start out with what might seem like a technical point. The British tax system contains a Personal Allowance that has the effect of removing the lowest paid from paying income tax and introducing a progressive principle above this level. They have little difficulty in showing that raising the Personal Allowance would do more for the poorest taxpayers than the headline-making alternative of widening the lower rate band - and much more than reducing the basic tax rate.

"Despite New Labour's insistence on the merits of paid work, its welfare reforms could lead to a basic income for all."

It so happens that, if the Personal Allowance is increased by plausible amounts, after about five years it will come to equal the benefit known as Income Support paid to single citizens of working age without any other means of support. It would then be a simple and natural step to convert the allowance into a tax credit, which would reduce the tax bill of the middle and upper-range taxpayer but be handed over as a benefit to those below the tax threshold. In this way, all would receive what amounts to a modest basic grant.

A tax credit would automatically put an end to the present harsh system of removing Income Support, pound for pound, once a person starts to work. Instead he would pay normal tax on his initial earnings.

Families with children are at the moment treated rather differently. There is a Child Allowance, non-taxable and available as of right. This is a rudimentary Basic Income for families with children; and Gordon Brown, the Chancellor, has introduced a Child Tax Credit that is gradually withdrawn as incomes rise. In addition, the Working Families Tax Credit provides an income top-up for low-paid workers. Recipients can draw it as a benefit or claim it as a credit against tax.

Mr Brown has spoken of the prospect of extending this benefit to families without children and thus making it into a Labour Market Participation Income; and this is what I myself have long advocated. Unfortunately, however, there are many perverse effects of the WFTC that, the authors have persuaded me, make it undesirable to stay too long at this stage. For instance, because of the 69 per cent taper at which the credit falls off there is quite a strong disincentive to work longer hours or seek better paid employment. Moreover, there are persuasive social arguments against pushing mothers, whether married or unmarried, into paid jobs when they might do better to look after their own children and perhaps engage in voluntary work.

A further stage might be something like a Social and Economic Participation Income, available to anyone engaged in worthwhile communal work of any kind, such as caring for the young or old, or looking after the sick, and so on.

This is about as far as one can envisage public opinion going at the present time. But even this broader kind of conditional participation income would have snags. It would depend on making all kinds of difficult distinctions between social participation and idleness or leisure.

The best way of avoiding these snags might then be to go the whole hog to an unconditional Basic Income, which would not by then be all that much more expensive. The gain in preserving the good intentions and genuine altruism of a leftwing administration without all the nanny state attributes would be immense.

We are not in a position to go that far either financially or in terms of public attitudes. But at least a road has now been mapped out showing how present policies could be nudged in that direction.

The authors of this booklet, like most other writers on poverty and social security, think mainly in terms of income streams. But there is another approach that starts from the desirability of people acquiring capital, the income from which they could use at their discretion. Two American authors have published a proposal for providing every young American with a capital sum of $80,000 that, they argue, could be financed from a 2 per cent wealth tax. (B. Ackerman and A. Alstott, The Stakeholder Society, Yale University Press). Some leftwing British think-tanks have proposed similar ideas.

Mr Brown has a chance of making a move in this direction without looking for new taxes. He could use the unexpected bonus from the auction of third-generation mobile telephone licences for this purpose. There is, of course, no free lunch here.

The cost of moving towards a citizen's capital stake would be that these windfalls would not be available to reduce the national debt and the interest on it; and this would mean that there would be a slower pace of so-called tax cuts.

There is no need to make a definitive choice between the capital and income routes towards a citizen stake at this stage. It is a matter of taking advantage of any opportunity that occurs in either direction.

Pensioners need £90 a week to live, MPs tell Government

Author: Andrew Grice, Political Editor

Publication: The Guardian

Date: 3 August 2000

Pensioners need £90 a week to live on, a Labour-dominated Commons committee said yesterday, piling pressure on the Government to provide more cash.

The Social Security Select Committee called for an immediate rise in the £67.50-a-week basic pension and warned the Government might eventually need to uprate it in line with earnings instead of prices.

Last night ministers privately admitted the committee's call would fuel the row over the 75p-a-week rise in the basic pension in April. "It was a mistake by the Treasury and we need to put it right," one source said.

The Chancellor, Gordon Brown, will try to stem the tide of criticism in November by unveiling a new credit, which would give all pensioners an income of about £80 a week, even if they have savings or an occupational pension. But the scheme would not take effect until after the general election and would stop short of yesterday's demands from the influential select committee.

The MPs endorsed Age Concern's findings that pensioners need £90 a week to provide their basic living requirements and urged the Government to make this figure its goal.

Ministers have strongly resisted the long-running campaign, led by Baroness Castle of Blackburn, to restore the link between the basic pension and earnings, which rise faster than prices. But the MPs warned that, if the proposed credit does not work, the earnings link would have to be restored "to provide a firm financial platform for retirement on which people can build for the future".

The Government says this would cost £4.5bn and the committee admitted the move would involve higher taxes and national insurance contributions. The MPs also said the basic state pension for everyone over 80 should be raised to £78.45 a week, the level of the Government's minimum income guarantee (MIG), which is means-tested.

They warned the Government's policy of raising the MIG in line with earnings while restricting the increase in the basic pension to prices was "unlikely to be sustainable in the long run".

Pensions move away from conditionality

The MPs added: "If it is right for the MIG to be linked to earnings, so too must both components of the state pension, if we wish pensioners to share equally in the rising prosperity of the nation."

Jeff Rooker, the Pensions Minister, who told the committee he could not afford to live on £78.45 a week, said yesterday the average pensioner income was £132 a week, but he admitted: "We have to do more. We have repeatedly said we want to do more."

Archy Kirkwood, the Liberal Democrat MP who chairs the committee, said: "We are nailing our colours to the mast. We are saying to the Government, if they don't think £90 is modest, they should work out what the figure should be.

Mr Kirkwood, member for Roxburgh and Berwickshire, added: "That should be the target and it should be achieved in the minimum time possible."

Andrew Dismore, the Labour MP for Hendon, said: "Ninety pounds is what pensioners need to live on. We say we think there is a case for uprating the basic pension as part of that."

CI Letters

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Dear Editor

I would like to comment on Clive Lord's article, 'CI versus the Minimum Wage' in Citizen's Income Newsletter Issue 2, 2000, pp 2-3

Clive asserts that 'a minimum wage ... is incompatible with a sustainable economy ... If a minimum wage is ... set high ... that it will price useful jobs out of the market and aggravate inflation must be true unless the economy goes on expanding.'

So, ignoring expansion in the economy, Clive takes it as axiomatic - it 'must be true' - that a minimum wage will cause unemployment. But it is not true that it 'must be true': whether this argument is true or not is an empirical matter. It depends entirely on whether there is any monopsony power in the labour markets concerned. Monopsony power is the power of buyers in a market (here, employers of labour) to influence prices (in this case wages) by their quantity decisions (how much labour to employ). If profit-maximising employers have some monopsony power, elementary microeconomic analysis shows that they will set the quantity of labour employed and the wage paid at a lower level than a competitive labour market, where no one has any influence over market-clearing wages, would imply. A competitive market would require large numbers of insignificantly small labour employers, just as there are large numbers of insignificantly small households offering labour services on the supply side of the labour market. If, on the contrary, labour demanders consist of relatively few, but large, concern, as is often the case, then the chances are that there is considerable monopsony power present.

Again, A-level microeconomic analysis shows that in this case a minimum wage could increase both wages and labour employment. At the same time, the increased quantity of labour would produce additional output, forcing a reduction in output prices to clear the product market. Hence the minimum wage in this case has a beneficial effect on both employment and inflation.

So the contention that minimum wage laws have a damaging effect on employment and inflation depends on the assumption that labour markets are perfectly competitive. Whether they are competitive or monopsonistic is an empirical question - but one only has to articulate the question, whether any such market power exists, to see how questionable Clive Lord's assumption is.

Author:
Paul Welsh
Position:
Member of CIES

Dear Editor

The Scottish National Party's view on social security expressed by Alex Neil MSP and leadership contender for the SNP provides for a future for Citizen's Income in Scotland. Finding 'common cause' with the views expressed means that there is an alternative to New Labour's lack of flexibility, in meeting the basic requirements of our elderly community and combating poverty. Constrained by devolution, the economics of independence must focus on delivery mechanisms, such as a Citizen's Income.

We can afford a rise of more than 75p in their pension, within an independent context and we will campaign to restore the link between pensions and wages, which was cut in the 1980s. Wages have grown much faster than prices, to which pensions are now linked. At present pensioners' incomes (in general) are made up of 60% state provided and 40% private (occupational/personal) provision. By 2050 the government wants to change this so that 60% of pensions are provided privately and only 40% by the state. But will private pensions offer more security and better life? Lets look to increase the basic state pension to a level, which will provide a decent standard of living to all pensioners. Pensions are the key to quality of life in old age - much better to be old and miserable and 'comfortable' than old and miserable and poor! The conditionality and hoops that the present system of benefit dictates assumes 1/3 of Scotland's pensioners are tied to the poverty line. So in the new politics of devolution let's afford pensioners some economic rights for the 21st Century.

Why should people 'make do', when the alternative is a smarter way of operating, namely a Citizen's Income.

Scottish Nationalism, coming from its traditions of civic responsibility, should more than ever be about delivering economic and social justice.

Vague concepts like the 'Third way' coupled with its focus on social justice targets, will not tackle the bread and butter issues for communities, especially over our elderly citizens.

We welcome readers' views on CI and related topics. To submit your comments please write to the Editor of the Newsletter at the CISC LSE, St Philips Building, Sheffield Street, London WC2A 2EX

CI Opinion

Pensions may rise above inflation - hints Gordon Brown

Chancellor Gordon Brown has hinted that pensioners could expect a more generous rise than suggested by the inflation figures which have risen to 3.3% from 3.0%.

Speaking on a visit to Peckham in south London, on 17 October 2000, the Chancellor said: "I said in July that we are going to be announcing in the pre-budget report new reforms that will help pensions and pensioners.

The first thing that we want to do is raise the standard of living of the poorest pensioners. We will try to get from £78 to £90 a week for the minimum income guarantee. "

He added: "Then we want to create a new system that will reward savings and reward those with modest occupational pensions, instead of penalising them. I want to see all pensioners benefiting and we will be announcing measures in the next few weeks."

Normally, state pensions and other benefits would be uprated next year in line with the September headline inflation figure. The 3.3% rate of growth would give an increase of around £2.25p a week on the single person's basic state pension.

However, following the outcry over this year's 75p pension increase, which was based on the September 1999 figures when inflation was at a 36-year low at just 1.1%, Mr Brown has signalled that next year's uprating would be above inflation.

The Chancellor is expected to give details of the increase when he delivers his annual pre-Budget report in the next few weeks.

The Office for National Statistics reports says the increase in the headline rate of inflation in September was due largely to rising petrol prices, reflecting the rising cost of crude oil, which partly reversed the price falls of the previous month.

Gordon Brown is facing new demands for a big pensions increase after figures show the basic state pension would have to rise by more than £2 a week just to keep up with the cost of living.

An unexpected increase in inflation last month intensified the pressure on Mr Brown following the Labour leadership's defeat on pensions at its party conference.

The basic state pension and other benefits are traditionally uprated each year in line with the September headline inflation rate which came in at 3.3%.

Pensioner groups said that would mean a £2.25 increase in the single person's pension from £67.50 to £69.75 while the married couple's pension would go up by £3.60 from £107.90 to £111.50.

However Mr Brown has already signalled that next year's rise would be above inflation after the outcry over this year's 75p increase.

In his party conference speech last month, Mr Brown said his pre-Budget report would include "transitional arrangements" for the next three years to help all pensioners until the Government's new pension credit comes into effect in 2003.

That announcement is now expected soon after the Commons returns on October 23 following the summer recess, amid speculation that he is preparing to raise the single pension by £5 a week with £8 for married couples.

However Rodney Bickerstaffe, general secretary of the public service union Unison, who led the pensions revolt in Brighton, warned that Mr Brown may have to dig even deeper if he is to win back the "grey vote". "I think the Chancellor has got to do a lot better than that in the next few weeks. Other parties have talked about £5 increases and the like. I would think it has got to be in excess of that," he said.

CI Resources

CISC plays a vital role in building democracy, promoting pluralism, improving justice, addressing poverty and correcting and complementing the roles of the state and the economic marketplace

Subscriptions

As an educational charity, Citizen's Income relies heavily on the support of members. A small fee entitles subscribers to the following benefits:

- a quarterly newsletter
- discounts on current publications
- access to CI events and conferences
- full access to CISC resources
- opportunity to network
- access to the CI Online resource
- position papers on relevant initiatives

Library

The extensive range of resources in the study centre has now been archived and will soon be available online. Plans are in place to use the resources as a library with bookings being made online.

Citizenship Income Economy and Society (CIES)

Reports and information from the CIES group in Scotland are now available online at the address http://www.working-on-the-future.org

The website includes edited video highlights from the last CIES meeting on volunteering. This is the first time that CI have placed video and audio online and we hope to develop this medium to reach as many people as possible in the future.

Anyone who has difficulty in accessing these video highlights (including problems with installing/downloading the required RealPlayer software) should contact the study centre.

CI Diary

6th November

CI forum

A Basic Income Guarantee for the 21st Century: a discussion day on the development and promotion of Citizen's Income Policy.

With Rt Rev'd David Jenkins; Sir Samuel Brittan, Financial Times; Prof Jane Lewis, Barnett Professor of Social Policy, University of Oxford; Judith Hanna, National Centre for Volunteering; Dr Sean Healy, CORI, Justice Commission, Eire; and Matthew Smerdon, Community Links, Newham.

Contact: Citizen's Income Study Centre for Information, 020 7955 7453 or

e-mail citizen-income@lse.ac.uk

14-15 December 2000

Active Ageing: European Best Practice Conference

International Convention Centre, Birmingham, UK

With support from The British Society of Gerontology, The NHS Executive, Birmingham City Council, Anchor Trust and Birmingham Health Authority a two day meeting is being organised to showcase examples of best practice and enable an exchange of ideas to take place. The conference which has the support of over 40 European cities, will provide an opportunity for key policy makers, professionals, academics and older people themselves to come together and learn about strategies, programmes and actions that are being pursued throughout the European community to improve the quality of life of older people.

Speakers include Gabrielle Clotuche (DG Employment and Social Affairs) Lord Hunt (UK Government Minister) Marja Pijl (President, Eurolink Age) Prof. Sir John Grimley Evans (Oxford University), Prof. Chris Philipson (University of Keele) Prof. Anne-Marie Guillemard (CEMS-EHESS, Sorbonne), Frances Hunt (Age Concern England)

For more information please go to our web site

http://www.activeoldage.co.uk

In the event of problems with any of the above, contact CISC. For more details try our website at www.citizensincome.org

Conference

The International Union for the Scientific Study of Population is organizing its XXIVth General Conference, next year in Salvador, Brazil.

I am in charge of a session called "The Economics of Ageing" and I think it would be interesting to receive some paper submissions from you.

Critical dates are:

Dec 15 2000: Deadline for abstract submissions;

Feb 15 2001: Selection of Abstracts by Organizers;

June 15 2001: Submission of full papers

Aug 18-24, 2001: Conference in Brazil

The home page of the conference is

http:www.iussp.org/Brazil2001/index.html

Submissions to rofman@arnet.com.ar