Citizen's Income

newsletter

Issue 1

2002

Contents

Citizen's Income Newsletter

ISSN 1464-7354

Citizen's Income Trust

P.O. Box 26586

London SE3 7WY

Tel: +44 (0) 20 8305 1222

Fax: +44 (0) 20 8305 9944

Email: info@citizensincome.org

Website: www.citizensincome.org

Registered charity no. 328198

Director: Malcolm Torry

This issue of the newsletter edited by Malcolm Torry

The Citizen's Income Trust and its future

The trustees would particularly like to draw readers' attention to the article on the back page of this newsletter.

Editorial

Housing costs

Discussion on the reform of benefits and taxation frequently avoids the issue of housing benefit. This should not surprise us, as there can be no more complex benefit. It is the only part of the benefits system which has ever seized up completely (in the mid-‘80s, when an attempt at reform resulted in Housing Benefit Supplement, the collapse of the system, and the reform’s abandonment); it is the only part of the system which has to cope with variables unrelated to personal circumstances (because housing costs vary so widely across the country); and it is the only part of the system currently suffering under four distinct transitional arrangements.

It is therefore to the credit of the Pivot Initiative that it has issued a well-argued report on the reform of housing benefit (see the news item below). The reforms proposed would be genuine simplifications of the system, and the cost to the exchequer of these reforms would be modest. The suggestion that both housing benefit and council tax benefit should not be withdrawn at the same time would be particular helpful as it would increase the rate at which net income rises as earned income rises and would therefore improve incentives to seek employment and to increase earnings once in employment.

Of longer term interest is the more radical proposal for housing allowances, comprising a flat-rate element and an element calculated as a proportion of actual rent paid. This reform would turn housing benefit recipients into participants in a market, leading to greater efficiency in the allocation of housing.

But the radical question which is not asked is this: If it is beneficial to reduce the effects of means-testing, then why not seek to abandon means-testing altogether ? The contribution to the debate later in this edition suggests precisely this.

Events

The launch of the Pivot Initiative’s report *Hope for Housing Benefit: a strategy for housing benefit reform.*

The Pivot Initiative was established a year ago at Centrepoint, the national youth homelessness and social exclusion charity, by Peter Dawe, entrepreneur and founder of Unipalm-Pipex, the internet company, to research means of reducing the marginal tax rates experienced by people on low incomes. Its major interest has been the reform of housing benefit, and to this end its Director, Daniel Brewer, has edited a report, *Hope for Housing Benefit,* which was launched on Wednesday 7th November at the Institute for Public Policy Research.

At the event Sue Regan (IPPR) welcomed a diverse group of MPs, civil servants, journalists and representatives of voluntary organisations. Lord Adebowale (former Chief Executive Officer of Centrepoint and now Chief Executive Officer of Turning Point) spoke about the difficulties which the housing benefit system poses for young people, and the difficulties involved in understanding and reforming the system. Daniel Brewer introduced the report, which suggests a number of reforms which would simplify the housing benefit system and at the same time reduce the poverty trap which the system currently imposes on low earners.

Currently 4.6m people receive housing benefit, so there are 4.6m people who experience rapid withdrawal of the benefit as their earned income rises, and a lot of people who suffer a disincentive to seek employment or to increase their earnings once in employment. If employment is to be a major means of lifting people out of poverty, then housing benefit is a problem.

The report makes several proposals:

Extended payment periods: Housing benefit currently runs on into new employment for four weeks, but there are conditions attached to the run-on. To remove the conditions would ease the transition into employment;

Nondependent deductions: Other adults living in someone's home are currently means-tested (a means-test within a means-test), and if information on their earnings is not available then the maximum nondependent deduction is applied to housing benefit claims. The report proposes a small flat-rate deduction for earning nondependents and no deduction at all for nonearning nondependents. This would reduce the risk of nondependent young adults being asked to leave home;

Longer payment periods: At the moment, any change in circumstances triggers a reassessment of housing benefit. Working Families Tax Credit is based on a 12-month payment period during which minor changes are ignored. The report suggests that for housing benefit a 6-month payment period during which minor changes would be ignored would simplify administration;

Combining Council Tax Benefit and Housing Benefit tapers: At the moment, as other income rises, both council tax benefit and housing benefit are withdrawn together, contributing to a total withdrawal rate of 85%. This is a disincentive to seeking employment. The report proposes that council tax benefit should be paid at the full rate until housing benefit has been completely withdrawn, and that only then should council tax benefit begin to be withdrawn. This would result in a withdrawal rate of 65% throughout, giving many families a net weekly income £20 higher than at present;

The elimination of earnings disregards: The disregards are extremely small and thus provide no real incentive to seek employment. They should either be increased or withdrawn. The report suggests that the taper be reduced by 10% at the same time as the disregards are removed, thus increasing incentives over a broad income range and reducing them only for those earning very little.

Housing allowances: At the moment, housing benefit is related directly to actual rent paid, but in each area the rent levels on which calculations are based are restricted. Many people cannot find accommodation at the maximum rent level allowed, so they have to find some of the rent themselves. The report recommends that in the longer term housing benefit should be replaced by housing allowances made up of a flat rate element (related in each area to average rent levels) and an element proportional to the actual rent paid. This would protect people who could only find expensive accommodation, at the same time as giving people an incentive to seek cheaper accommodation should it become available.

The report contains graphs showing the effects of some of the listed changes on net incomes, and a table showing how the implementation of the different proposals might be related to a timetable.

Debate following the presentation ranged widely over the provision of housing, differences in costs throughout the country, the difficulties faced by pensioners who would lose from the proposals (such as owner-occupiers on council tax benefit but not on housing benefit), the relationship between high housing costs and low take-up of working families tax credits, and applying a housing allowance system to home-owners as well as tenants.

Anthony Lawton, the new Chief Executive Officer of Centrepoint, declined to sum up the discussion, instead reflecting on the difficulty of the subject and the importance of tackling the problem.

The report is obtainable from The Pivot Initiative, Centrepoint, Neil House, 7 Whitechapel Road, London E1 1DU, telephone +44 (0)20 7426 5397, fax +44 (0)20 7426 5448, email: enquiries@pivot.org.uk, website: www.pivot.org.uk.

The inaugural conference for the Centre for Microdata Methods and Practice ('cemmap')

On Thursday 6th December, the new Centre for Microdata Methods and Practice, a joint venture between the Institute for Fiscal Studies and the Department of Economics at University College London, was launched with a conference entitled 'Microdata Methods and Practice: Perspectives and Priorities'. Speakers included Professor Andrew Chesher, Director of the new center; Andrew Dilnot, Director of the IFS; Baroness Sarah Hogg (Chairman, Frontier Economics, and previously head of the Downing Street Policy Unit from 1990 to 1995); Evan Davis, Economics Editor, BBC; Professor Richard Blundell, of the IFS and UCL; and Sir Andrew Turnbull, Permanent Secretary to the Treasury.

Sir Andrew's presentation was particularly relevant to discussion of the reform of tax and benefits. He outlined the Treasury's policy of basing reform on evidence, and introduced 1.the Treasury's 'Evidence for policy choice' website, 2. its evidence based policy fund, and 3. the evidence based policy cycle, which implies the following process: data → analysis/review → research → policy thinking → consultation/testing → enactment → set-up evaluation → delivery → outcome → data.

Given the resources, the Citizen's Income Trust could clearly make a substantial contribution to all stages of this cycle up to the 'consultation/testing' stage.

Reviews

Jay Ginn, *From Security to Risk: Pension privatisation and gender inequality*

(London: Catalyst, December 2001) (Catalyst is at P.O. Box 27477, London SW9 8WT, telephone 020 7733 2111, email catalyst@catalyst-trust.co.uk, website www.catalyst-trust.co.uk).

The introduction to this paper reveals just how small women's financial resources are in retirement compared with men's. (The statistical evidence reveals a divide far larger than this reviewer realised). This gulf, which relates particularly to occupational and private pension provisions, means that women are more reliant on a state pension than men are.

The paper also reveals significant continuities in government policy on pensions, with the change in government in 1997 seeming to make little difference to the consensus that private provision (with public subsidy) should grow and that the state Basic Pension should decline in real terms. Both of these trends disadvantage women.

Another serious trend is towards means-testing. Because of the advent of the Minimum Income Guarantee, by 2003 half of all pensioners will suffer means-testing; and, combined with the fact that Britain has a lower state pension than most other OECD countries, this is bound to affect the willingness of people on low incomes to save for their old age.

Ginn suggests that it needn't be like this:

> "There are better alternatives, even in liberal welfare states. For example, New Zealand provides a tax-funded citizen's pension at age 65 to each resident, irrespective of employment record. The amount is 34 per cent of average net earnings for each married person and 44 per cent for lone pensioners. In 1998 this was equivalent to over £100 per week for a lone pensioner (using Purchasing Power Parities). As a result, New Zealand's men's and women's incomes in retirement are roughly equal. One reason New Zealand has the resources to provide a citizen's pension for all is that there is no tax relief on private pensions. Denmark also provides a citizen's pension higher than Britain's Basic Pension, although only at age 67.
>
> "Closer to home, Ireland has a higher basic pension than Britain. In 1998 it was equivalent to £91 per week (29 per cent of average industrial earnings) and it is being increased faster than prices.
>
> "Scrapping the NI system and replacing it with a citizen's pension set at an adequate level would avoid the increasingly complex calculations of entitlements in the NI pension schemes. For women, it would have the added advantage of rewarding unpaid and paid work over the life course equally, allowing older women the dignity of an income of their own and improving gender equality in retirement incomes," (p.15).

Ginn also offers some less radical suggestions, such as raising the Basic Pension to Minimum Income Guarantee level; but the argument of the paper leads inexorably towards the conclusion that a citizen's pension is the best way to provide an income for elderly people in such a way that the inequalities between men and women before retirement might not be perpetuated after it.

David Piachaud and Jo Webb, *Social Security and the Changing Labour Market*
(Trades Union Congress, October 2001, £10, ISBN 1 85006 582 9).

Social security has an *economic* function, as it reduces exclusion, encourages risk-taking, and reduces the crime-related costs of inequality. The problem is the cost, and the pressure (greater as globalisation affects our economy) to reduce labour costs and thus taxes on income from labour. But Piachaud and Webb find no 'race to the bottom', and suggest that there won't be one, as too many workers rely on social protection. Similarly, the authors find that there is no simple 'dependency culture'.

The paper contains some other interesting findings: that there is no clear relationship between social protection spending and economic growth; that UK benefit levels are lower than in most European countries; and that, whilst the UK spends 27% of GDP on social protection, this has less impact on poverty than lower spending has in some other countries.

The lack of a clear relationship between social protection spending and economic growth, and the UK's low benefit levels, between them suggest that the UK could increase benefit levels without damaging economic performance.

On 'the family' as the major source of social protection, the authors write: "For social protection in Britain the family remains the basic unit of account. Indeed with the extension of means testing with the Working Families Tax Credit and the pensioners' Minimum Income guarantee the family unit on which benefit entitlement is assessed is becoming increasingly important. The promotion and subsidy of low-paid work through the Working Families Tax Credit is a key component of the strategy to eliminate child poverty within a generation. This involves a recognition that many parents cannot rely solely on universal benefits nor are they able to take full-time employment or obtain a job that pays above the poverty level. This family-focused subsidy in Britain is in contrast to the measures in many countries to ensure that all individuals have adequate social protection in their own right. ….. in many European countries this depends on extending social insurance to those who are part-time or very low paid and to those with interrupted working lives due to care of children or of disabled relatives. Britain has tended to move in the opposite direction, leaving those with little or no social insurance to depend on the means-tested Income Support Scheme. For those who do or will depend on Income Support there is little incentive to earn or save. More fundamentally the family-based means test undermines individual entitlements and serves to encourage family break-up," (p.16).

Similarly, the authors criticise the British system for not adapting to changing employment patterns: "Where employment is changing towards short-term contracts, individually negotiated pay and conditions, portfolio working and reduced occupational welfare the result is increased insecurity and more dependence on social protection. If employment is no longer life-long, then relying on occupational welfare for protection when sick or old is less and less possible. Social protection in many countries is adapting to changing work patterns. In Britain only minor adaptations have been made and then largely as a result of adverse rulings of the European Court," (p.17).

On globalisation, the authors suggest that, "considering the increased insecurity that globalisation seems likely to engender, the balance of political pressure will most probably shift towards improving social protection," (p.19).

The paper calculates the cost of catching up with the rest of Europe in terms of spending, and concludes: "Globalisation presents many challenges to welfare states. Yet we have seen that it requires us to sustain our levels of social protection, not reduce them. There is no evidence that increasing social provision would harm economic efficiency, and much to suggest that it would have beneficial effects on poverty and social harmony. The experience of some of our European neighbours suggests that the twin objectives of high economic growth and low poverty rates can be achieved simultaneously. Britain would do well to follow their example," (p.20).

The logic of the paper leads to the conclusion that the additional spending needs to be on non-means-tested, individualised benefits not linked to particular labour market statuses.

Employment and Poverty, second edition, (Trades Union Congress, £7.50, ISBN 1 85006 583 7).

This paper concludes that "the clear correlation between a country's social protection spending and its poverty rate, and the lack of a correlation between poverty rates and employment rates indicates equally clearly that employment cannot be the whole answer to poverty. Workless families in the UK are far more likely to be poor than their counterparts in other European countries, and this must be related to the level of social protection in different countries," (p.11). So "welfare-to-work policies, however effective, cannot *substitute* for adequate social protection spending," (p.9). The major casualties of a welfare-to-work policy are those children living in households where parents are not available for work, for whatever reason ," (p.13)).

Abraham Doron, 'Targeting Social Protection Benefits', in *Benefits*, issue 31 May/June 2001, pp.10-13.

"Targeting of social security benefits has always been an integral part of social welfare policies. The introduction of the term 'targeting' into the current policy discourse is, however, of recent usage. All social benefit programs in the past were, in one way or another, targeted to serve specifically defined population groups, whether those in actual need or those at risk of being in need. There have never been programs that operated in an entirely indiscriminate manner in distributing their benefits. Resources have always been scarce and the main task of policy makers has been how to make best use of the limited resources available for social benefits. The policy issue is thus not whether targeting is necessary but how can it achieve the policy goals in the most effective manner," (p.10).

The author discusses in detail the different targeting methods used in Israel, and concludes that targeting is done mainly by aiming benefits at particular demographic groups (children and pensioners) rather than by means-testing. As well as being targeted at groups which tend to be in relative need, these non-meanstested benefits aimed at these groups can be regarded as 'targeted' in the sense that the benefit will be a higher proportion of income for those with fewer other financial resources than for those with higher financial resources.

The article concludes: "The major issue in the debate ….. is not targeting in itself, because the need for targeting has always been recognised and accepted in practice. The issue is whether targeting takes place within programs designed to cater to the poor and low-income groups only through the use of means and income testing at the point of access, or if targeting is achieved within broader universal benefit systems and on the basis of group status criteria, without means-testing, proved to be more viable than the recourse to means testing and other individual behaviour criteria. The Israeli experience, for example, gives ample support for this view," (p.13).

The article raises the question as to how the word 'targeting' should be used in debate in this country. The author defines 'targeting' as the directing of resources to serve particular groups. Thus Child Benefit is targeted: on children. If, as the article suggests, targeting means directing resources disproportionately towards certain groups, then a Citizen's Income could be regarded as a means of targeting on people with low incomes, as its effect would be that of providing a higher proportion of net income for poorer families than for wealthier families and it would thus be directed disproportionately towards poorer families.

Social Policy and Administration, volume 35, December 2001, no.5.

This special issue of *Social Policy and Administration* on 'Environmental Issues and Social Welfare' invites those of us who are interested in the reform of social security benefits and taxation to think again about the link between these concerns and the sustainability of the planet. Of particular interest is the paper by Tony Fitzpatrick entitled 'Making Welfare for Future Generations'. Fitzpatrick summarises his own theory on intergenerational justice in which he develops a principle of 'sustainable justice' which recognises "the long-term mutuality of intragenerational and intergenerational equity: the former without the latter is unsustainable; the latter without the form is undesirable," (p.508). He looks for social policies which might serve the interests of both the present and the future poor, and suggests collective ownership of pension funds.

Fitzpatrick locates the link between this discussion of sustainable justice and environmental issues in the principle that "substitutables should only be utilized if the welfare thereby created is subject to an egalitarian distribution [because] the depletion of a substitutable has implications for everyone, therefore everyone should be able to benefit from it on a scale that current property rights do not permit," (p.513). He discusses the Alaskans' distribution of oil revenues to every resident as a social dividend – and suggests that it has few environmental credentials.

This of course reveals the problem: that the paper is about two separate issues: environmental issues, and social justice (though social justice in an intergenerational context). As Fitzpatrick recognises when he discusses the use of a field for either a car park or a conservation park, it is the particular kind of tax regime chosen which will determine whether the environmental justice is served.

Of particular interest in this respect is Meg Huby's article, 'The Sustainable Use of Resources on a Global Scale', which includes a discussion of the consumption of energy in wealthy and poor countries, and which recommends carbon taxes which, she believes, "could pay huge environmental dividends and provide revenue for improving social assistance schemes," (p.533).

Maybe it's time to revisit the idea of a Citizen's Income paid for by imposing a carbon tax. Such an arrangement (- particularly if either established or regulated on a Europe-wide basis) would serve intragenerational, intergenerational and environmental justice, whilst at the same time contributing to the efficiency of the labour market: an issue which some suggested policies take less into account.

Sharon Collard, Elaine Kempson and Claire Whyley, *Tackling financial exclusion: an area-based approach* (The Policy Press, 2001), pb, 52pp, £12.95.

This is a report on research carried out in a participative fashion in a deprived area of Bristol. Through focus groups, local people identified the difficulties they face when they attempt to gain access to financial services. The researchers then put the questions raised to providers of financial services; an audit of financial provision in the neighbourhood was undertaken; and finally groups of local people questioned financial providers, evaluated the responses received, and identified priorities for action.

Banking, loans, savings, loans for micro-entrepreneurs, financial services for Muslim Somalis, and financial information and education, were identified as priorities; and the new basic bank accounts offered by Natwest ('Steps') and the Bank of Scotland ('Easycash') were regarded as meeting local needs, as was the proposed universal bank account to be operated through Post Offices.

The research was carefully conducted, with genuine local participation; and the conclusions drawn will be helpful to the providers of financial services as they seek to serve poorer communities.

What is now required is in-depth research on how people in more deprived communities do *actually* manage their finances, along the lines of Jordan et al's research in Exeter into the ways in which low-income families make decisions about sources of income. (Bill Jordan, Simon James, Helen Kay and Marcus Redley, *Trapped in Poverty? Labour-market decisions in low-income households* (Routledge, 1992)). In this way the detail as well as the broad outline of what is required will become clearer.

Bill Jordan's conclusion was that low-income families operate as if means-tested benefits were non-withdrawable benefits, until earned income reaches a certain level, at which point earned income is declared and means-tested benefits lost or reduced. The decriminalisation which reducing means-testing would achieve is a strong argument for establishing a small and growing Citizen's Income.

Any future research into financial services provision will need to address this question: How are decisions about which financial services to access linked to decisions about how income sources are managed? For instance: Is a family receiving means-tested benefits and undeclared casual earnings less likely to open a bank-account than a low-earning family not in receipt of benefits? If so, then the conclusion which Jordan et al draws has relevance to any future debate on the provision of financial serves in more deprived areas.

Toru Yamamori, 'Redistribution and Recognition: Normative Theories and the Political Economy of Welfare States', in *Competition, Trust and Cooperation* edited by Y. Shionoya and K. Yagi, and published by Springer (ISBN 3-540-67870-0).

Yamamori discusses redistribution as a process of entrance, game, and exit, and the recognition of differences as a process of entrance, communication, and exit. Interventions in the game or at the exit perpetuate and strengthen boundaries between people (between women and men, between independent people and dependent people, between different racial groups, etc.). Only intervention at the entrance will dissolve the boundaries. Most income maintenance instruments apply during the game or at the exit, and so perpetuate and strengthen boundaries. A Citizen's Income is applied at the entrance, and so dissolves boundaries and reduces inequalities.

Nicholas Timmins, *The Five Giants: A Biography of the Welfare State*, New edition (HarperCollins, 2001), pp.xvi+708, £12.99.

This book announces itself as a 'new edition' of the book Timmins published in 1995, and any review of a new edition of a book is inevitably also a review of the original edition, which was a unique history of the welfare state, revealing what a remarkable achievement it was and still is.

The introduction sets out both a plan and some of Timmins' conclusions. He candidly admits that the book includes those things which interest him, as any biography does; so, fortunately for the purposes of this newsletter, the book contains more on social security benefits than many other authors' biographies of the welfare state would have done.

Timmins' initial conclusions are that there was no 'golden age'; that social policy has always been driven by diverse and often irreconcilable aims; that it is difficult to discover explicitly labour or conservative approaches to reform; that the Beveridge Report and its (partial) implementation were colossal achievements; that anger at continuing inequality is highly appropriate; and that change frequently results in unintended consequences (- there is a useful section in pp.282f on Family Income Supplement's (FIS) tendency to depress wage rates and to increase the depth of the 'poverty trap', which was first defined in relation to FIS).

In a short review it is not possible to discuss the detail of the historical argument of the remaining chapters. Instead, I shall highlight those parts of the history and of Timmins' treatment of it which will be of particular relevance to readers of this newsletter.

The remarkable implementation and survival of Child Benefit runs as a seam of gold through the book, and Timmins recognises the importance of not means-testing it (as have politicians of various political hues). Child Benefit was an important element in Beveridge's plan to ensure that families would be better off in employment than out of it, and this theme too runs throughout the history, and particularly through the revised chapter 20 and the new chapter 21 in the new edition which discuss the recent New Deal, Working Families Tax Credits (WFTC), and plans for tax credits for people without dependent children. Similarly, Beveridge wanted most elderly people to be on non-means-tested pensions, and governments are still pursuing this goal by different means in order to maximise personal savings for old age. (The proposed income guarantee for pensioners will be a wrong turn in this respect).

Beveridge wanted a contributory scheme because he wanted every employee to contribute as well as to receive. When he wrote his report, only higher paid employees were paying income tax, so national insurance contributions paid by every employee were the obvious way to enable everyone to contribute. An important general lesson to draw from Timmins' history is that a single aim can often be met via different routes; and an important particular lesson is that a tax-based social security system would now achieve Beveridge's aim that everyone should contribute because now people on relatively low incomes are paying income tax.

Beveridge's aim was a contributory 'platform' and a means-tested 'safety net', but because the rates of contributory benefits were set at similar levels to those of means-tested benefits (National Assistance, subsequently renamed Supplementary Benefit and then Income Support), and because means-tested benefits included housing costs and contributory benefits did not, by 1954 the 'safety net' was supporting 1,800,000 people. As we shall see, the position has worsened since then.

An interesting subplot is the way in which radical proposals have frequently been made, often several times, before being implemented. Labour's manifesto of 1964 contained a pledge to integrate tax and benefits and thus abolish means-tests for pensioners, and then for others (p.225); in 1974 the Conservative government was working on tax credits; and the Working Families Tax Credit integrates a means-test with income tax assessment for some employees. The possibility of a Citizen's Income scheme gets a mention in this context – but the book is biography, not prophecy, so we should not expect Timmins to have explored this possibility further. (Maybe he should write another book).

From 1978 onwards a note of defeatism enters the story as governments continually adjusted and renamed means-tested benefits rather than seeking to replace them with something different. (The account of the 1983 Housing Benefit Supplement fiasco is particularly revealing). Norman Fowler's 1986 review was intended to be radical, but the outcome wasn't (though it did for the first time apply the same means test to in-work, out-of-work and housing benefits, making the poverty trap shallower but wider).

It is a pity that the new edition no longer contains interesting tables to be found in the original edition; but interesting figures in the original chapter 20 are still there in the new edition, and they show that by 1992 there were 5.6m people on Income Support, which, when dependents are included, means 20% of the population. The figure was 4% in 1948. Both editions, in different ways, reveal increasing inequality, with the new edition recognising that recent policies have at least arrested the acceleration of inequality for those on the lowest incomes.

It is often difficult to discuss such recent developments objectively, but Timmins has useful sections on developments in social security policy at the end of the last Conservative administration and during New Labour's first period in office. The continuities are interesting, and particularly those relating to attempts to provide incentives to work and to attempts to reduce means-testing. Also useful is the recognition that Beveridge's scheme was a development rather than a revolution and that the search for a 'big idea' to solve the problems facing the social security system has (so far) ended in failure. The unthinkable has not yet been thought by governments, even if various unthinkables have been thought by various individuals and think-tanks.

An interesting outcome of recent developments is an increase in means-testing (for Working Families Tax Credits *is* better described as a means-tested benefit than as any other kind, and the pensioner income guarantee will be one too); and Timmins concludes that universal provision is having a hard time of it and will continue to do so.

This new edition of Timmins' 'biography of the welfare state' is essential reading for anyone interested in the current debate on social security reform, a debate which must now be linked with that on income tax reform. Whilst a Citizen's Income approach to the problem is currently not high on the agenda, Timmins' book shows that the issues amongst which this approach operates are precisely those within which debate on the future of social security is taking place: incentives to seek employment and to save; income maintenance; housing costs; complexity; inequality; responsibility to contribute …… And he also shows that Beveridge's aim was to provide a ‘platform’ on which people could build (because to provide a platform is to encourage individual effort) and that our social security system is no longer true to this vision because its chief instrument is a set of means-tested safety-nets. Beveridge would have wanted us to seek a new ‘platform’.

The only conclusion to draw is that discussion of a Citizen’s Income is central to any future discussion of social security reform.

News

The Zacchaeus 2000 Trust comments on how the government’s New Deal scheme is working:

The Zacchaeus 2000 Trust has recently funded work at the Family Budget Unit to determine how much people need to live on, and has publicised the results of the research. It has also made submissions to government on a variety of government initiatives on the basis of its own research, and a recent submission on how the government’s New Deal for young people is working might be of interest to readers of this newsletter:

The Trust writes:

> “We suggest the committee investigates the following areas of concern during its new enquiry.
>
> A poverty trap is created by Working Families Tax Credits. The tapers cut out the council tax and housing benefits too soon. The transfer of the full payment of rent and council tax to the low paid employee can result in greater poverty in employment than out of it. So debts arise.
>
> People who experience short periods of employment on low incomes and then return to unemployment on benefits can find themselves in debt because their pay was too low while they were employed to feed themselves and their children and, at the same time, pay the Council Tax and Rent. Low paid contract workers are particularly vulnerable.
>
> A further problem for the low paid is the Local Authorities method of calculating “eligible rent” which can be less than the actual rent. Housing benefit is paid to cover the eligible rent leaving the tenant to pay the balance of the actual rent out of the already inadequate statutory minimum incomes either in or out of work.
>
> Another trap is the debt caused by the delay and inefficiency in processing benefit applications in local authorities, benefit agencies and job centres, or their privatised equivalents. Getting off benefits and getting back on puts people in debt and on the streets because of delays and mistakes. This is caused by shortage of staff and lack of training.
>
> Claimants fall into debt when going into employment because the payment of benefits is not cancelled and they are then charged by the local authority for the over payment, and when going back on to benefits into unemployment because delays and mistakes mean that the rent is not paid. This leads to threats of eviction and homelessness. The same is true of council tax leading to threats of distress and prison.
>
> The benefit system collapses altogether when a young person falls out with the "New deal for young people" and income support is cancelled. This forces them into the informal economy or homelessness when their skills do not match the jobs on offer in the

formal economy. Seven million adults can barely read or write. Carrying drugs from A to B pays £50 a time. This cancellation of benefits should be repealed.

We hope the committee will investigate whether this cancellation of benefit contravenes the International Convention on Economic, Social and Cultural Rights.

The number of unemployed is counted by the number receiving benefits. There is, therefore, political pressure to get people off benefits. This pressure may be influencing the decisions of staff in a manner which deprives people of benefits to which they are fully entitled.

I hope the committee will investigate the destinations of the 29% of young people leaving the New Deal to unknown destinations."

The Centre for Asset-based Welfare

The Institute for Public Policy Research has launched a 'Centre for Asset-based Welfare' to study the role of assets (such as savings and investments) in welfare policy. Asset-based policies could become a significant part of the welfare state. Already the government has proposed a Child Trust Fund, and the new Centre plans to undertake research which will give a better understanding of why holding assets might create beneficial social and economic outcomes for individuals.

In an article in *Prospect* (December 2001, page 50), Gavin Kelly (Research Director of the IPPR) and Julian Le Grand (Professor of Social Policy at the London School of Economics) discuss the way in which asset accumulation is currently subsidised for the already wealthy (in the form of tax relief on pension contributions) and the way in which the asset-based welfare suggested by Thomas Paine has historically been submerged beneath a welfare system based on the reallocation of income rather than of capital. The authors tackle the 'futility' objection to such plans as the Child Trust Fund (the argument that small amounts are pointless) by suggesting that once an idea is established then public opinion can determine the level of the payments, and by drawing on research which shows that even small savings can increase people's wellbeing.

In addition to the Child Trust Fund, the government is also planning a 'savings gateway', whereby every £1 saved by an individual (up to an annual limit) will be matched by £1 from the government.

The Citizen's Income Trust will watch these new government initiatives with interest, and will study carefully any research which the new centre publishes. The universal nature of the Child Trust Fund and the savings gateway, and the simplicity of their administration, will make their behaviour similar to that of a Citizen's Income, and how these initiatives are received will be useful information for anyone interested in the extension of universal benefits. And because universal benefits make people more likely to save (because means-tested benefits are a disincentive to saving), we hope at some point to see the government suggesting a small Citizen's Income to match these current experiments in universal provision.

(The Institute for Public Policy Research is at 30 – 32 Southampton Street, London WC2E 7RA, tel. +44 (0)20 7470 6100, fax +44 (0)20 7470 6111, email: info@ippr.org.uk; website: www.ippr.org. A useful introduction to the topic is *Assets and Progressive Welfare*, edited by Sue Regan, price £7.50, ISBN 1 86030 160 6, published by IPPR in March 2001. *The Assets Effect* by John Bynner and Will Paxton investigates the link between assets and well-being, price £7.50, ISBN 1 86030 161 4, published by IPPR in October 2001).

Future events

The Ninth Congress of the Basic Income European Network

is entitled

Income Security as a Right

and it will be held at the International Labour Office in Geneva from the 12th to the 14th September 2002.

Further details can be obtained at www.basicincome.org or by contacting the Citizen's Income Trust; and we shall publish further details in our next newsletter.

A contribution to debate

The reform of Housing Benefit

Housing Benefit is an essential component of many people's income, enabling them to afford somewhere to live; but it is also a major contributor to the poverty trap. Housing Benefit is means-tested, with a 65% withdrawal rate as earned income rises, meaning that someone who leaves means-tested benefits for paid employment, or who increases their earned income, can suffer high marginal tax rates. There is a small disregard, meaning that it is worth someone being employed for a couple of hours a week, but not for longer. And because short-term employment means the loss of Housing Benefit, a new application, and then another application when the job ends, short-term employment is avoided because claimants cannot predict the effect on their Housing Benefit and they fear administrative mistakes and the consequent rent arrears.

Ideally, housing costs should be low enough to enable Housing Benefit to be dispensed with, and the government's recent Green Paper on housing and the subsequent statement of policy [1] regard the reform of social housing and the implementation of additional means of providing affordable housing as important ways of enabling people to afford decent housing. But the government recognises that this will be a long-term strategy, and therefore makes proposals for the reform of Housing Benefit in the short term, the key methods being to raise standards in administration, to simplify the four existing transitional protection schemes (left over from previous attempts at reform), and to 'promote work incentives'. [2] The policy statement records that amongst those who commented on the Green Paper "there was widespread support for taking action to improve work incentives ……. [and] there was general support for longer-term, more structural reform, but varying views about when it should take place, and in what form." [3]

The policy statement recognises that "much of the work disincentive effect lies in the administrative problems, rather than the design of the scheme itself," [4] and that "Housing Benefit is complicated. This makes it difficult for local authorities to administer and difficult for the

---

[1] The Green Paper, *Quality and Choice: a decent home for all*, was published on 4 April 2000, and the Housing Policy Statement, *Quality and Choice: a decent home for all: The Way Forward for Housing*, on 13 December 2000, both by the Department of the Environment, Transport and the Regions.
[2] *Quality and Choice: a decent home for all: The way forward for housing*, chapter 10.
[3] *Ibid.*.
[4] *Ibid.*.

public to understand. That, in turn, make it more vulnerable to fraud and error and damages work incentives." This leads the government to the conclusion that what is required is "a more effective process for making claims, along with changes to ease the transition into work and improve the administrative fit between Housing Benefit and tax credits." [5] The document proposes the removal of the need to make a new claim on starting work, and the speeding up of Housing Benefit payment if a job ends after a short period. The Department has decided not to reform disregards, tapers and non-dependent deductions at this stage because, "given the current problems, sorting out the administration, combined with our 'benefit run-ons', [6] will have more impact on work incentives than changing additional rules in these areas."[7]

A proposal in the Green Paper, and one which has been greeted with interest by respondents (including the charity Shelter), is the idea of a flat-rate element. A Housing Benefit made up of a percentage of a locally-agreed flat rate (based on average local housing costs) and a percentage of a claimant's actual housing costs would offer some incentive to claimants to seek cheaper accommodation if they were able to do so. Clearly, a scheme with a flat-rate element would encourage people to move to cheaper accommodation if they could, as doing this would increase their disposable income. A less steep taper, increased disregards, and longer claim periods, would enhance work incentives. *The Way Forward for Housing* mentions each of these possible reforms, but does not combine them. If all four approaches were to be taken together, then the poverty trap effect of Housing Benefit would be much reduced, as people would have a greater ability to increase their disposable income through moving home and/or seeking employment or increased earned income.

The logic of this argument leads to the conclusion that to set Housing Benefit at a locally-agreed flat rate, to remove the taper completely, to increase the disregard to the total of someone's earned income, and to increase to a lifetime the period for which the benefit is paid, would remove completely all disincentive effects currently related to Housing Benefit. Given that everyone needs to be housed, to pay such a benefit to every individual (with children's benefits being paid to adults caring for them) would avoid the current necessity to work out who is living in which household. [8] And the fact that this benefit would be going to individuals who are not currently in receipt of Housing Benefit is no argument against this approach, as all that is required to recoup the money is to lower tax allowances and raise tax rates slightly.

Such a simplified system would leave little room for fraud or error (both identified as serious problems in the Green Paper), and it would give people greater confidence to go out looking for work, as they would know that their benefit would not be affected.

A major problem in London is that low-paid essential workers can no longer afford to rent or purchase accommodation. To pay a Housing Benefit as outlined above would mean that, whatever someone's earned income, they would receive a higher benefit in areas of high housing costs and a lower benefit in areas of lower housing costs. Thus a simplification of Housing Benefit along these lines, which would extend the benefit in a non-withdrawable fashion to low-earners, would contribute towards the solution of an additional and serious problem.

Radical proposals are rarely implemented in the benefits field (Family Allowances, which became Child Benefit, are an important exception), but if the logic of an argument leads to

---

[5] *Ibid*..

[6] Income Support 'runs on' into the beginning of a period of employment.

[7] *Ibid*..

[8] The suggestion has been made (by, for instance, Shelter and the Pivot Initiative) that consideration should be given to paying a housing tax credit. Whilst this would have some of the same advantages as the approach discussed in this paper, the disadvantages would be: 1) that the household would then become the claiming unit, and which people are in which household then becomes an issue and an administrative problem; 2) that it would not be possible to use the administrative system for those in and out of employment; and 3) that varying the amount of the payment in relation to average local rents would become difficult, if not impossible.

desirable outcomes, then there is surely an obligation at least to consider the possibility of a radical solution, particularly where that solution might tackle problems in addition to the ones which it was originally designed to tackle.

Shelter suggests the following criteria by which any housing scheme should be judged: Housing Benefit should

- Promote social inclusion
- Be paid to people who cannot pay for their own accommodation
- Cover reasonable rents
- Make work pay
- Be transparent and accountable.

The scheme proposed in this paper [9] fulfils every one of these criteria.

I would like to thank Daniel Brewer of the Pivot Initiative, Tarig Hilal of Crisis, and Matthew Waters of Shelter, for their assistance. The views expressed in this contribution to the debate are those of the author and are not to be taken to be those of the individuals or organisations above or of the Citizen's Income Trust

Malcolm Torry

The Citizen's Income Trust and its future

Following the ending of the Joseph Rowntree Charitable Trust's generous funding a year ago, the Citizen's Income Trust has successfully negotiated the change from being a well-funded organisation with an office and paid staff to being a low-budget organisation run by voluntary labour. The organisation's activities have been refocused on our primary objective: the promotion of debate about the feasibility and effects of Citizen's Income schemes. The newsletter has been issued more regularly than before, the website has been maintained, and after running in this fashion for the next couple of years we hope to be in a good position to seek funding for the longer-term projects which we are planning.

Running costs

The one problem which the trustees face is that the Trust ended 2001 with no money in the bank. We do not currently have to pay for an office or for paid staff, but website and email hosting, insurance, audit fee, telephones, stationery and postage cost about £1,500 p.a., and the newsletter costs about £3,000 p.a.. Subscription income from institutions amounts to only about £1,500. The Trust therefore requires donations of about £3,000 p.a. to perform the basic functions for which it exists.

A serious problem is that the promotion of debate on the reform of tax and benefits does not now fit the grant-making criteria of any charitable trusts. Whilst we hope that in the future particular projects might attract such funding, it is difficult to see how any grant-awarding trusts might be persuaded to fund the Trust's core running costs. We are therefore entirely dependent upon individual donations.

---

[9] *Quality and Choice: a decent home for all: the Housing Green Paper: Shelter's final response* (Shelter, July 2000).

The next five years

In order to plan for the next five years and to be able to seek funding for projects such as seminar series, conferences, new publications, research projects (particularly on costings) and a commission on the reform of tax and benefits, the trustees need to be sure that donation income of £3,000 p.a. will be available for the next five years.

Can you help ?

Many of this newsletter's readers have already been generous with donations for the current year. Whether or not you have already made donations to the Trust, would you be willing to promise a fixed annual or monthly sum for a period of five years ? And if you know of any individual, company, or other organisation interested in the reform of tax and benefits, would you be willing to show them this appeal and ask for their help ?

The trustees of the Citizen's Income Trust have decided, reluctantly, that if by the middle of June the Trust has not received promises of £3,000 p.a. then the charity will not be viable in the medium term and that closure will be inevitable. We wish to avoid this if at all possible. The Citizen's Income Trust is the only charitable trust with the sole aim of promoting debate on the reform of tax and benefits – which is why we are asking for your help.

If you might be able to help the Trust and would like to discuss making a regular donation, whether large or small, annually or monthly, to the Trust, then please get in touch with the Director, Dr. Malcolm Torry. Contact details are on the front of the newsletter. He would also like to hear from you if you would like to pay for one of the short-term or long-term projects we are planning, such as a new introductory leaflet (£1,500), a seminar series (£3,000), an annual lecture (£1,000), research on the costings of alternatives (£5,000+) and a commission on the reform of tax and benefits (£160,000).

With many thanks for your continuing interest in a debate essential to the health of our society and economy,

Anne Miller, Chair of the trustees

Philip Vince, Secretary and treasurer