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### Citizen's Income Newsletter

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## Editorial

### Citizen's Pension

December 2004 saw the publication of the most significant contribution to the debate on the desirability and feasibility of a Citizen's Income for several years: *Towards a Citizen's Pension: Interim Report*, prepared for the National Association of Pension Funds (NAPF) by the Pensions Policy Institute (PPI).

In October 2002 NAPF recommended that the basis for reform of the state pension system should be a Citizen's Pension: a universal, non-withdrawable income for every citizen over pension age, set at 22% of national average earnings (approximately £105 a week in 2004).

According to the Interim Report the benefits of a Citizen's Pension would be adequacy, simplicity, inclusion, encouragement to save, efficiency, and certainty, i.e., precisely the qualities required for a state pension designed to encourage people to create their own additional pension provision. No longer would people be left wondering whether it was worth their while to save for old age. They would know that it would be. And financial advisers would be far better able to advise clients on the net benefits which would accrue from private pension schemes.

The report outlines the solutions to some of the issues which transition to a Citizen's Pension would face (such as ensuring that employees contracted out of the State Second Pension and employees not contracted out are treated equally by applying the same offset to rights accrued in contracted-out schemes as will be applied to rights accrued in the State Second Pension).

There are issues which still require discussion. An issue which individuals have raised with us is the proposed residency criterion. There are people living abroad who have accrued rights in the UK's State Pension scheme by paying National Insurance contributions. A simple residency test would therefore need to be supplemented by transitional arrangements for people who have accrued rights in the present system. But these are minor issues, and both we and the PPI, and clearly other participants in the debate, believe that there are no issues which should prevent the implementation of a Citizen's Pension. As the PPI has shown, a Citizen's Pension is affordable within the current pensions budget.

NAPF and the PPI are not the only participants in the recent debate. In 2003 the House of Lords Select Committee on Economic Affairs recommended a universal non-means-tested pension in its report *Aspects of the Economics of an Ageing Population*; in February 2004 the National Consumer Council, in their publication *Retirement Realities*, recommended a Citizen's Pension; in the spring of 2004 Alan Pickering's report for the Adam Smith Institute recommended a universal non-means-tested pension set at 40% of national average earnings; in September 2004 the Association of British Insurers expressed the

view that means-testing of pensions should be reduced; in February of this year Help the Aged recommended a Citizen's Pension in their report *Pensions not Pin Money: Ensuring a decent retirement for all*; and both in the House of Commons (on the 14<sup>th</sup> October 2004) and in interviews in the *Telegraph* (4<sup>th</sup> December) and the *Guardian* (29<sup>th</sup> December) the Rt. Hon. Alan Johnson, Secretary of State for Work and Pensions, has expressed serious interest in implementing a Citizen's Pension.

We await developments with interest.

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## Main articles:

### Toward a European Basic Income Experiment

by Loek Groot (Utrecht School of Economics, Utrecht University)

The purpose of a European Science Foundation Exploratory Workshop on the 18<sup>th</sup> September 2004 in Barcelona was to discuss the merits of a Basic Income/negative income tax experiment in Europe and to comment upon the design of the experiment. For this reason experts in the field of randomized field experiments, income taxation, social security arrangements, gender issues, political scientists and philosophers were invited to participate in the workshop. In the introductory text to inform prospective participants, the following summary of the topic to be discussed at the workshop was offered:

Any design for a new BI or NIT (Negative Income Tax) experiment in Europe should be informed by the NIT experiments in the USA which started in the late 1960s. Although the outcome of these experiments cannot be considered predictive for the expected effects of the introduction of a BI in Europe or even the USA today, some important lessons can be drawn for setting up a new experiment. Atkinson (in Atkinson, A.B. (1995), *Public Economics in Action. The Basic Income/Flat Tax Proposal*, Oxford, Clarendon Press, p.150) states that "the NIT experiments are generally considered to have reduced the range of uncertainty surrounding the response of hours of work to taxation..." However, "... there is no necessary reason to expect the results to apply equally in a European context. Those interested in a BI/FT (BI/flat tax) scheme in Europe might like to consider launching such an experimental research project,

which would serve both to throw light on the economic effects of the reform and to demonstrate how it would work in reality."

The emphasis in the design of the experiment will be on the labour market effects. Will people work less or will some people even stop working? Will beneficiaries be more prepared to accept low paid or part-time jobs? Will non-participating partners ('housewives') seek and take more, or less, paid work? What will be the effects on the division of paid and unpaid work within the household? Will a BI cause interesting behavioural reactions in all sorts of other areas? Although the latter may not be crucial for the judgement of BI's feasibility, it is nonetheless worth watching. For instance, the effects of a BI on consumption patterns, family composition (living together or separate), role division between men and women, the way leisure time is spent and things like participating in voluntary work, social participation, etc., are all possible consequences worth taking into account.

The idea behind the workshop was that it would be interesting to launch an experiment in one of the former 15 EU members as well as in one of the new member states from Eastern Europe. In designing the experiment many questions must be answered and decisions made: the levels of the income guarantee and the withdrawal rates; the number of questionnaires (a screening interview to determine eligibility, a pre-enrolment interview, regular interviews during the experiment, a follow-up interview after the experiment); the topics to be included in the interviews (work and income patterns (about job training, job history, partner's labour force history, child care and welfare history), family life and background (about family composition, educational background, social class, etc.), political and social life (about political awareness, social networks) and other assorted topics (e.g. social status, self-esteem, worry and happiness, attitudes toward work, and job satisfaction); and finally, the content of the enrolment kit containing the rules of operation of the experiment.

At the workshop, Loek Groot provided the basic design of a Basic Income experiment. The lessons to be learned from the U.S. negative income tax experiments were taken care of by the contributions of Karl Widerquist, Rebecca Maynard and Robinson Hollister. Finally, Marx and Peeters explained why the study of *Win for Life* lotteries is interesting for Basic Income research. In what follows, I will concentrate on

my own contribution and at the end refer to the results of the discussion.

According to Loek Groot, the best selling point for a Basic Income experiment is that it offers the opportunity to measure more adequately the effectiveness of thousands of workfare-oriented experiments going on all over Europe. Comparing the results of Basic Income and workfare-oriented experiments will show what the net effect is of all kinds of 'make-work policies' compared to when it is left to the client group itself to decide what to do or not to do. Because there are no BI experiments going on, we can only guess what the differences would be. For instance, it may well be the case that workfare experiments show better results in terms of labour market inclusion, but that BI experiments show better results in terms of inclusion in all kinds of unpaid work. However, if labour demand is the short side of the market, it is likely that no large differences will emerge in labour market participation rates between the two groups. In any case, comparing the evaluation findings of workfare and BI experiments may give us crucial information about the effectiveness of welfare-to-work activities performed by welfare and employment agencies.

For the Basic Income research, an experiment may provide additional information about the labour supply effects of introducing a Basic Income, thus reducing the radical uncertainty surrounding the Basic Income proposal. An experiment might also show which variant (e.g. combining guarantee level and withdrawal rate, providing it on a household or on an individual basis, disbursing it as a NIT or as a Basic Income) is the most promising.

The criteria used for the choice of groups to be included in the experiment are twofold. First, the emphasis of the experiment is to research the labour supply effects of the groups over which there is the greatest disagreement among labour economists about expected (negative) labour supply responses and which are of great importance for the feasibility of a BI. These groups are the social assistance recipients and the low wage workers. In addition, it might be interesting to include prospective entrepreneurs in the experiment. Second, the choice is influenced by the desirability of minimizing the cost of the experiment. Given the total budget for the experiment, the lower its cost per participant, the higher the number of participants and the longer the duration of the experiment can be. For this reason, a group of workers is included in the experiment who would not

experience a change in net income if they take part in the experiment. If the participants in these groups do not change their labour supply, no extra costs for the experiment are incurred. Extra costs only occur when they decide to work less.

*Selected points of the discussion at the workshop*

The basic design of the experiment entails the choice of the (possibly varying) guarantee level and the (varying) tax or withdrawal rate. Given this choice, the following recommendations and suggestions were made:

- Since social assistance recipients entering the experiment will no longer be forced to return as quickly as possible to paid work, there is a danger that they will also be cut off from resources (e.g. training, job counselling services, etc.) that are required to return to paid work. This may be ethically problematic. To solve this problem, it might be a good idea to give participants the same per capita value as the cost of these services in the form of a voucher, so that making use of these services remains on a voluntary basis, as it should be under a BI scheme.
- In the original proposal, besides social assistance recipients, workers with break-even incomes would be selected for the experiment. It is possible to narrow down this group even further in a sensible way, by allowing only families with young children in this group. The reason is that this group (being in the rush-hour of life) is the category most at risk, e.g. in terms of burn-out, insufficient time to care adequately for the children, etc., and that for this group a large and significant labour supply response can be expected.
- To a considerable extent, the Belgian lottery game Win for Life (W4L), which grants every winner an unconditional lifelong monthly payment of 1000 euro, represents a good proxy for what would happen after the introduction of a Basic Income. The many insights that can be obtained from the W4L for Basic Income research, as presented by Axel Marx and Hans Peeters at the workshop, rest on the following claim. If the winners do not stop working, or work less, or start up a business of their own after winning W4L, they will certainly not do so under a BI scheme. The reason is that the monthly payment for winners under the W4L

scheme is, at least for the short and medium term, higher than any reasonable level of BI would be in the near future. Compared to a BI experiment, which is most likely a limited group of persons in a geographically narrowly defined area who receive a BI during only a limited time period, the W4L has several advantages. Based on the preliminary outcomes of the W4L, it is advisable to remove prospective entrepreneurs from the groups to be included in the experiment.

- We did not arrive at the stage of discussing practical matters like the number of questionnaires or the country most suitable to conduct a BI experiment. There was no consensus that launching a BI experiment would be a good idea after all. For one thing, the Win for Life lotteries will provide much of the information in the near future that a BI experiment would bring about. Besides some disadvantages, the W4L has two comparative advantages over a standard BI experiment. Firstly, a major shortcoming of a BI experiment is its limited duration. For instance, participants might not change their work pattern precisely because they know that the experiment will only last a limited number of years. In W4L, however, because the winners receive a *lifelong* benefit of 1000 euro per month, the behavioural responses will include the long term effect of receiving an unconditional benefit for the rest of one's life. Secondly, high income earners will not participate in a BI experiment if this would mean that, other things being equal, their net income would decrease (the BI received does not compensate the higher taxes payable). Therefore, the participants in the BI experiment will not be a representative sample of the population. In W4L, however, it should be possible to compose a group of winners which is more or less a representative sample of the population (except that there is a selection bias because they are all members of the group which buys lottery tickets).
- During the ensuing discussion, two proposals were made to remedy shortcomings in the BI and W4L experiments. For the BI experiment, it was suggested that it should be possible to include the high income earners in the experiment by giving them a higher (lump sum) BI to compensate for their income loss because of the higher taxes to be paid. The result of this

operation is that the income effect is set to zero, but the substitution effect is maintained. To avoid the selection bias of the W4L, it was suggested that we forfeit for once the automatic inflation adjustment of the tax allowance (in e.g. Belgium) in return for a lottery ticket for everyone. In this way, it is possible to get a group of winners which is both representative of the population as a whole and not affected by a selection bias.

*Some minor points:*

- In the experiment, an *individualized* Basic Income is strongly to be preferred above a *household based* Basic Income, because appropriately defining the family unit proved extremely difficult in the NIT-experiments.
- Instead of giving all participants a BI, you can give them the choice between NIT and BI.
- For data collection purposes it is very important to get access to various administrative sources (e.g. social insurance, tax authorities, etc.).
- Experiment with different guarantee levels, i.e., not truncated at 1 or 1.25 times the social minimum.
- Since a small labour supply response by a subgroup with a high density in the population can make a big difference for both the tax cost and the economic feasibility of the programme, it is important to include enough cases of these groups in the experiment (e.g. low wage male workers) to get reliable results.
- A serious limitation of W4L is that the W4L grants are not financed by income taxation, just as the grant from the Alaska Permanent Fund is not financed by income taxation (but from oil revenues). In this sense, studying the W4L gives reliable information on the income effect of unconditional grants, but not on the substitution effects (due to higher tax rates required to finance the unconditional BI).
- Rebecca Maynard stressed that the main rationale for random field experiments in the U.S. is the strong indication of the unreliability of the non-experimental evidence on many relevant topics of social policy. Although the high cost of an experiment, along with its ethics, may constitute an obstacle to launching an experiment, the cost of policy-making based on unreliable evidence and beliefs may be

many times higher. To implement a policy without conducting a small-scale experiment beforehand amounts to putting the whole population into an experiment. For the design of the experiment, it is of paramount importance to know the important questions, to identify the main population groups to be included in the experiment and to know the critical features of the intervention which the experiment has to mimic. A practical point to keep in mind is that the effects of the experiment or intervention can change when the overall circumstances change. For instance, the effects of a BI in an economy with an unemployment rate of only 3% can be entirely different from the same economy with a 10% unemployment rate. If such a dramatic change were to occur during the experiment, a smart response would be to increase the sample size. In general, to correct for changes over time, there is much to be said for a staged entry into the experiment group.

- According to Widerquist, the major focus of the experiment should not be the labour supply response, as was the case with the U.S. NIT experiments, but the efficiency costs or losses of providing welfare (see Widerquist's paper below). To illustrate this point, and as is well known from public economics, efficiency costs arise from the tax rate, not from lump sum grants.

As will be clear, although more clarity has been achieved about what such a BI experiment would look like and what exactly we might want to know, it is still too early to draft a blueprint for a European Basic Income experiment.

## What would we like to learn from a European Basic Income Experiment?

by Karl Widerquist

I very much enjoyed being part of the one-day workshop on a Basic Income experiment in Europe. About 20 of us spent the day discussing how Basic Income could be tested in a European social experiment. Toward the end of the workshop, it occurred to me that if there is going to be an experiment, we should start with a list of what we would like to learn from it. Well aware that we will actually be able to test for much less than we would like to know, I think that an extensive wish list is the

best place to start. Then we can consider how we could test each of these questions and that will help to determine which ones we should actually focus on, and how best to set up the test. I started a list at the workshop, hoping to bring it up in the discussion at the end. But time ran short, and so I would like to circulate that list now, and ask everyone else who participated to contribute their thoughts.

Many of the items on this list refer to the equation relating before tax to after tax income. This equation is the same whether the programme tests a Basic Income (BI) or a negative income tax (NIT). The equation is: after tax income ( $Y_d$ ) equals the Basic Income grant ( $G$ ) plus private income ( $Y$ ) minus income times the marginal tax rate ( $t$ ):

$$Y_d = G + Y - tY$$

This formula can be simplified to:

$$Y_d = G + Y(1 - t)$$

I begin with a list of things that we might be able to learn, and then list some things that we would like to learn, but that cannot be learned, from an experiment.

### *Labour supply effects:*

These were centrally important to the U.S. experiments in the 1970s, but they were not usually looked at as broadly as they should have been.

1. **What is the effect of various sizes of grant level ( $G$ ) on labour supply?**
2. **What is the effect of various sizes of marginal tax rate ( $t$ ) on labour supply?**
3. **What is the efficiency loss created by Basic Income?** "Efficiency loss" is a technical term economists use to refer to a net loss to society as a whole. Most redistribution does not represent efficiency loss, because the loss to the taxpayer is a gain to the recipient. The question as to whether redistribution is desirable is an open one, but there is no efficiency loss unless some of the wealth that is being redistributed is lost along the way. Economists have many technical tools they use to estimate efficiency loss. Efficiency loss—and not the tax cost—is usually the "bottom line" question in any economic study, but it was largely ignored in the NIT experiments. Related to this question are two others (4 and 5)
4. **Does an equal amount of money spent on poverty reduction through Basic Income create a larger or smaller efficiency loss than**

spending on poverty reduction through the current, conditional welfare system? Experiments cannot give a complete answer to this question without being able to test for demand effects.

5. **Does an equal amount of poverty reduction through Basic Income have a larger or smaller efficiency loss than an equal amount of poverty reduction achieved by increasing the present conditional welfare system?** Experiments cannot give a complete answer to this question without being able to test for demand effects, but the fact that it is a comparison to another system makes the interpretation a little easier. If any question is the “bottom line,” this is probably the best candidate. It amounts to whether BI is a more effective and efficient way to fight poverty than the current conditional system. That is not the only reason one might choose one over the other, but it is an important reason.
6. **Would the amount of money spent on the current welfare state have a greater or lesser impact on poverty if it were spent as a negative income tax instead (or as the net cost of a BI)?** Experiments cannot give a complete answer to this question without being able to test for demand effects.
7. **What is the overall effect of Basic Income (G and t) on the labour supply of recipients?** This was the “bottom line” question in the U.S. NIT experiments, but it is not necessarily the most important question the experiments can answer. It is, in fact, only a proxy for the relevant question, “What is the equilibrium effect of a Basic Income?” which experiments alone cannot answer. The question of the “overall effect” is further complicated by the question of which of the many different combinations of G and t is the one that should be used to examine the overall effect.
8. **Will people respond to Basic Income by withdrawing completely from the labour force?** This is the most commonly cited argument against a Basic Income, despite the fact that the U.S. NIT experiments found no evidence of it. However, even a small number of labour market withdrawals would be considered by many to be a significant piece of evidence against Basic Income, depending on the reasons for the withdrawal. The reasons for

withdrawal will be much more difficult to determine than the fact of withdrawal.

9. **Will the labour supply effects of a Basic Income be so large that the programme becomes economically unsustainable?** This question can be restated: what is the highest sustainable level of Basic Income? Certainly a BI of 1 Euro per year will not have significant labour supply effects. At some level it will begin to show some effects of reducing labour supply, and at a higher level the labour-supply-reduction would become so large that the programme would simply be unsustainable. A hugely important question is how high BI (G and t) can be before the programme becomes unsustainable. And an important corollary to this question is whether the sustainable level is high enough to have the desired effect on poverty.
10. **What is the Income elasticity of the supply of labour?**
11. **What is the substitution elasticity of the supply of labour?**
12. **Do Basic Income and a negative income tax affect behaviour differently?** Although it is possible to study this question with an experiment, it would require running two experiments, one testing BI the other testing NIT, greatly increasing the cost.
13. **How do all of the above estimates compare to estimates from non-experimental sources?**

*Non labour market effects:*

It is important to remember that these are the *effects* of BI, and the labour market effects are merely the side effects.

14. **What is the effect of BI on the well being of the poor and others?**
15. **What is the effect of BI on homelessness?**
16. **What is the effect of BI on health?**
17. **What is the effect of BI on housing?**
18. **What is the effect of BI on education?**
19. **What is the effect of BI on the divorce rate?** The interpretation of these findings is extremely important because it is not necessarily desirable to reduce the divorce rate by making women financially more dependent on men.

20. **What is the effect of BI on time use within the home?** Will it encourage more equal sharing of work within the home, or will it encourage a more traditional male-female division of labour? This question will be very difficult to test because any such effects are likely to take a long time to take emerge.

*Questions that an experiment can't answer:*

The first three of these questions (21, 22, and 23) cannot be answered through a Basic Income experiment, and without them three of the most important questions (24, 25, and 26) can't be answered. However, estimates for these answers can be obtained from other sources, and they can be combined with experimental data to give a non-experimental estimate of the answers we want. This needs to be done and reported along with the direct results of the experiment.

21. **What is the labour demand response to BI? What is the price elasticity of the demand for labour?**

22. **What is the general equilibrium response to BI?** General equilibrium economics concerns the fact that all markets are inter-related. Basic Income directly affects the low-wage labour market. It indirectly affects the market for anything sold using low-wage labour as an input, the market for any goods that low-wage employees buy, and the market for any input that low-wage workers compete with. These markets in turn affect all others. General equilibrium models use assumptions to generate a theory for how one market affects all others, but experiments are not capable of estimating these kinds of effect without experimenting on the economy as a whole.

23. **What are the macroeconomic effects of BI?** Most particularly, what is the effect of BI on the unemployment rate and the business cycle? But we would also like to know how its macroeconomic effects feedback on the effects of BI on wages and hours worked.

24. **What are the equilibrium effects of G and t on the wages (and total incomes) of low-income workers?** This is one of the most important things we want to know about BI, but it cannot be determined from an experiment that is incapable of testing the demand response to Basic Income. However, demand response can be estimated from other sources and the

parameters from the experiments can be used in simulation models to produce a non-experimental estimate of the answer to this question. Because of the importance of this question, the report on the findings of these experiments should include such estimates.

25. **What is the equilibrium effect of various levels of G and t on hours worked?** This is also a very important question that cannot be answered experimentally, but should be estimated using simulation models.

26. **What is the efficiency cost (and cost in terms of tax revenue) of eliminating poverty through BI? How does it compare to the cost of doing so through strengthening the current system?** The total effect of BI on poverty depends critically on the demand response, which in turn will have an effect on the cost both in terms of efficiency and in terms of tax revenue, and again it will take a simulation model to produce any kind of estimate.

27. **Will BI have secondary effects on the price of housing and other basic commodities which will counteract its effects on the standard of living of the poor?**

28. **Will BI affect the average profit rate for businesses?**

29. **Will BI make the poor freer?** I don't know how to test this or whether it is possible to test. The answer depends critically on how freedom is defined.

These are my initial thoughts with just a little bit of extra thinking after the one-day workshop. I'm sure that there are important question I've left out, but I think that this is an important place to start. I don't think that the answer to any one of these questions is a knockout question that determines whether BI should be implemented or not. Instead, experimenters should determine feasibility and compare the desirable effects to the undesirable effects, and produce a full report detailing the plan's pros and cons.

**Response please:** The editor would be very happy to receive readers' responses to these two articles.

## Review

### Samuel Brittan reviews *Promoting Income Security as a Right: Europe and North*

*America*, Guy Standing (ed), London: Anthem Press, 2004

The English utilitarian philosopher, Jeremy Bentham, called human rights "nonsense on stilts". In fact he was amongst the most humane of men of early 19th century thinkers; but he did not regard the idea of rights, with its normal correlative of duties, as a helpful concept here.

Many who share his doubts have been silent on the matter. If you want to outlaw torture or censorship or imprisonment without trial, it seems pedantic to quibble about whether these causes should be called human rights or not. The incorporation of the European Charter of Human Rights into British law was a great advance, whatever the label. A stand on human rights does tend to separate those who believe in humanity and due process from those who believe that the so-called ends justify the means.

But when Basic Income is proclaimed as a right, I begin to see the point of Bentham's quibble. A rich and humane society can afford a minimum subsistence income for everyone without imposing conditions and obligations. If everyone has a basic sum on which he or she can fall back either in times of adversity or in order to withdraw partly or fully from the normal labour markets in order to engage in some less rewarded activity, whether altruistic, artistic or personal, a few of the beneficiaries may well choose to become Californian surfers. I would argue that he or she should *be able to do so* in a free society and that the cost of such dropping out to the rest of us is unlikely to be intolerable. But to say that the Californian surfer has a *right* to his activities is carrying the concept of right a bit too far.

One problem with *Promoting Income Security* is that so much of the book is devoted to diverse, and often convoluted, attempts to label a Basic Income as a right. The 34 essays in this book contain a mass of fascinating material into which anyone interested in Basic Income, whether in favour or against or agnostic, would do well to dip.

I was first drawn to Basic Income, which had not yet been christened with its name, several decades ago. This was because I was attracted by the libertarian aspect of capitalism, which enabled people to "do their

own thing" and to choose their own occupations. But I was not so attracted by the continuation of the work-ethic aspects, which were important in its historical development on the lines explained by Max Weber and many others. I hoped we were approaching a time when these aspects could be dropped and we could instead give people a choice: they could opt in to the ordinary labour market with its rewards and hardships; they could opt out provided they were willing to live at a sustainable but modest standard of living; or they could compromise and take a poorly paid job, topped up by this universal payment to follow their own way of life whether as artists, lotus-eaters or whatever. This kind of compromise would have been impossible during most historical periods when a subsistence Basic Income would have been so near the normal wage that nobody would have found it worthwhile to work for pay. It is for this reason that the early 19th century Speenhamland attempts in this direction collapsed.

The object of a Basic Income is to make every citizen into a rentier in a small way. Private property and unearned income, so denounced by the Marxists, are not inherently evil. The trouble is that so few people have them (apart from their own homes), with all the benefits they provide of personal independence. Surely in the better society to which some of us aspire, these advantages should be more widespread.

A further reason for my interest was the development in the 1970s and 80s of a much larger number of involuntary unemployed than had been the case in the post-war period. Not to beat about the bush, this reflected union-based and other labour market institutions which priced people out of jobs - something which New Labour admits but hides under a cloud of verbiage. I believed that reformers had to face up to the fact that the market clearing pay available to some workers might be below that required for any decent sort of existence.

There is yet another argument of a more mundane kind. Must citizens both pay taxes and receive benefits from the state in an apparatus of such complexity that only a rocket scientist turned tax expert and welfare counsellor could have any hope of understanding it? Why not simplify the structure by offsetting at least some of these transactions by a single payment either from the citizen to the state or the other way round? Milton Friedman and some of his followers envisaged a negative income tax which would replace state welfare of all kinds, including benefits in kind such as health and education. Some others on the left



envisaged a Basic Income paid in addition to every state service now provided and every payment already made.

It would be realistic at this stage to regard a Basic Income, whether paid across the counter or in the form of a negative income tax, as a substitute just for cash payments of all kinds, whether state pensions, unemployment benefits, sick pay or anything else. Even then there are problems enough. For something like the British Government's Social Fund would still be necessary for people so placed through health or circumstance that they could not manage on the Basic Income through no fault of their own.

There is a trade-off between Basic Income and the citizen stake, adopted in embryonic form under the British government's Trust Fund ("baby bond") scheme for endowing each citizen with a modest capital sum, available when he or she gains adulthood. In some sense they are very similar, as the baby bond can be regarded as the discounted value of future Basic Income payments. From a libertarian point of view the bond is preferable as the holder is free to decide when to draw out the funds. On the other hand no civilised society would want someone who had misspent his initial endowment to starve in later life. So the bond could never be a complete substitute.

In its original form, linked with negative income tax, the Basic Income idea was often attacked from the left as a plot to get rid of the welfare state. But there was another argument which began to make some headway among the left. This was that despite its high costs the welfare state was not reaching some of those who needed it most. One reason was the conditionality of benefits, which deterred so many from applying and which made others ineligible. Indeed Basic Income has now become linked with all too many fashionable anti-capitalist causes such as anti-globalisation and extreme environmentalism or more simply and sadly with the "lump of labour" fallacy that asserts that there are not or will not be enough jobs to go round and so some other form of support is necessary.

Unfortunately this book leans, not completely but in tendency, towards such views. There is a real danger here. For advocacy in this form not only puts off the enlightened minority among anti-socialist politicians who might otherwise give it some house room. It also puts off consensus leaders such as Tony Blair or any likely successor, who would run a mile from anything they see as far-out sandal-wearing socialism.

There is indeed an unfortunate tendency for Basic Income to be seen as a messianic movement for a

select group rather than as a device for tackling a weakness in market capitalism. From the latter more pragmatic point of view the most interesting chapter in this book is by Karl Widerquist in which he discusses the four US experiments and the one Canadian one in local negative income tax that took place over the period 1968-80. Although 336 scholarly articles were written about them they did not prove decisive. "Both Basic Income supporters and opponents could quote the findings of these experiments with equal conviction." The author's own opinion is that "none of the facts were persuasive enough to cause either supporters or opponents to change their mind." The experiments indicated very tentatively "that a Basic Income guarantee is financially feasible at the cost of certain side effects that people with differing political beliefs may take to be desirable or disastrous."

Surely the way ahead is to look at each country's existing social security system, examine how nearly it approaches a Basic Income, and see how the gap can be narrowed and eventually closed. In the UK one element of such a system already exists in the state pension. Another element consists of child benefits unconditionally available to all.

The present Labour government, building on the unsung efforts of its predecessors, has tried to remove the work disincentive effect of the ordinary dole by a system of in-work benefits. In addition child benefits are now topped up by child tax credits related to family income.

The most promising advance at present relates to state pensions. The complications of the pension credits, and their incomplete take-up, are creating a consensus in favour of a straightforward increase in pensions indexed to earnings, which would in effect create a Basic Income for those of pension age.

The most difficult task is to persuade governments to loosen the conditions applying to in-work benefits. Professor Tony Atkinson, who writes in this volume, has previously suggested a Citizen's Participation Income in which the definition of work would be widened to include full-time education and training, intensive care work and approved voluntary activities. This could be a halfway house towards removing the in-work condition. The most difficult part will be to remove the taper by which benefits are withdrawn at a surtax rate as earnings from work increase. But if only we could bite this bullet the whole case for capitalism and market forces would be easier both to make and to believe: not a consideration which will weigh too heavily among some of the contributors to this book.

## Other reviews

Institute for Public Policy Research, Social Market Foundation, Policy Exchange, Scottish Council Foundation and Institute of Welsh Affairs, *Overcoming Disadvantage: An agenda for the next 20 years*, Joseph Rowntree Foundation, 2004, pb 1 85935 142 5, 135 pp, £8.95 (introduction by Nicholas Timmins).

This is a series of essays, from a variety of think tanks, which respond to the issues raised in the Joseph Rowntree Foundation's *Tackling Disadvantage: A 20-year enterprise* (2003: see our issue 2 for 2003 for a review).

In his introduction, Nicholas Timmins suggests that there is now a consensus across the political spectrum: that poverty and social disadvantage need to be tackled; and he recognises that there is a limit to what current (means-testing) policies can achieve. He writes:

“Labour, having been in the past an arch-opponent of means testing, has in practice achieved much of its redistribution in office by using it. There has been a genuine attempt to tackle the complications and stigma of claiming means-tested benefits, not least through the creation and language of tax credits. Yet the critics, some of whose voices can be heard in these essays, are unconvinced, insisting that the price has been unacceptable complexity. And in the case of pensions, there are certainly strong arguments that the Pension Credit, while a clear gain for today's poorer pensioners, has made decisions about saving far harder for today's lower income workers. Add to that the recent falls in stock-markets, greater longevity and the underfunding of pension schemes and there is a feeling that Britain's pension system is at a crossroads.

Travelling further down the means-tested road is likely to lead to greater compulsion to save. The alternative route would be for the basic state pension to be rebuilt and turned into something closer to a participation, or even a 'citizenship', pension” (pp.18f).

For the institute for Public Policy Research, Sue Regan and Peter Robinson suggest that simply increasing the levels of tax credits and of the minimum wage is not enough, that “a positive conceptualisation of rights and responsibilities is needed to replace the muddy waters left by the demise of the contributory principle” (p.31), that simplification of the benefits system is essential (p.32), and that means-testing must be reduced (p.33).

Roger Wicks, of the Social Market Foundation, shows that both means testing (in the form of tax credits) and universal provision (Child Benefit) have increased in value for poorer families, with the result that income has been redistributed and that the National Insurance system has suffered. He recognises that the Labour government has reduced the stigma related to means-tested benefits by making 80% of families eligible for them in the form of tax credits; but he also recognises the disincentive effect of benefits being withdrawn at the same time as tax and National Insurance contributions are paid. A housing tax credit is suggested – and the problem of its complexity is recognised. A universal (rather than means-tested) asset-based welfare system is recommended (p.55).

Nicholas Hillman of Policy Exchange begins his essay with a discussion of increasing inequality, and he too describes the complexity of tax credit administration (p.69). He continues:

“The irony about the government's reforms is that the two groups most affected by the enormous extension of means testing – children and pensioners – were already targeted by successful, popular and universal benefits. Despite the declining importance of these benefits in recent years, it is likely that they continue to offer a better long-term model than excessively complicated means tests that cover huge swathes of people” (p.70).

In relation to today's complex pensions structure, he suggests that

“instead of searching for entirely new solutions, we should seek ..... to build on the existing consensus in favour of more generous state provision, less means testing and greater incentives to save” (p.72),

and he goes on to discuss the Pensions Policy Institute's study of a universal state pension. An overall conclusion is that poverty needs to be tackled by increasing employment incentives.

Jim McCormick's contribution from Scotland rehearses in a Scottish context some of the debates explored earlier in the volume (for instance, that on the tension between targeting and universalism); and John Osmund and Jessica Mugaseth, writing in Wales, discuss a variety of issues related to poverty – but neither the Welsh nor the Scottish contributions give to the structure of tax and benefits the attention which it deserves, partly no doubt because neither the Scottish Parliament nor the Welsh Assembly have any control

over these matters. It would be interesting to see what would happen if they were given these powers. Would we see a variety of different approaches in different parts of the UK ? And would we therefore be more able to study the pros and cons of different systems and be better able to improve the system in all parts of the UK ?

There is bound to be repetition in a collection of essays, and reviewers often pass negative comment on its presence. In this volume the repetition is instructive, and particularly the frequent verdict, from different parts of the political spectrum, that means-tested benefits are bad for incentives and that their complexity is a serious problem.

Gail Lewis, *Citizenship: Personal lives and social policy*, The Policy Press, Bristol, 2004, pb 1 86134 521 6, viii + 184 pp, £17.99

This is “the final book in a new series published by the Policy Press in association with the Open University. The series takes an interdisciplinary and theoretically informed approach to the study of social policy in order to examine the ways in which the two domains of personal lives and social policy and welfare practice are each partially shaped by and give meaning to the other” (p.vii).

The book is structured with the student in mind, and through study of accounts of personal experience, of social theology and of media reports and photographs, the student is led to question the meaning of ‘citizenship’ and to study the evolution of its meaning(s).

It’s all rather a jumble, and what’s in one chapter might often have been in another – but this is due to the nature of the concept being studied: for ‘citizenship’ *is* a complex and evolving idea.

What’s missing is an international perspective (for to look at other nations’ experience of citizenship would have provided an interesting perspective on the idea’s meaning in the UK), a discussion of English citizens’ status as subjects of a monarch, and a historical perspective: we are taken back in history to parts of the twentieth century, but not to Magna Carta. Why not?

The book will be a useful tool, not only for teachers and students of the Open University but for anyone studying on a first degree social policy or sociology course who is interested (or is expected to be interested) in the concept of citizenship. But it isn’t a book on citizenship for the general reader, for the

sociological jargon needs to be known for much of the material to make sense. Either the language should be made more accessible or there should be a ‘jargon’ warning sticker on the front.

If there is ever a second edition then the authors might with profit include a chapter on social security benefits as a case study, for the evolution from the Poor Law to National Insurance to Job Seeker’s Allowance and Tax Credits tells us a lot about the changing meaning of citizenship.

Heinz Steinert and Arno Pilgram (eds.), *Welfare Policy from Below: Struggles against social exclusion in Europe*, Ashgate, Aldershot, 2003, 304 pp, hb, 0 7546 3063 3, £45.

This book is the result of a three-year EU-sponsored collaboration between twenty researchers from eight university and research institutes on social exclusion understood as “the continuous and gradual exclusion from full participation in the social, including material as well as symbolic, resources produced, supplied and exploited in a society for making a living, organizing a life and taking part in the development of a (hopefully better) future” (p.5). The chapters are based on empirical studies conducted in eight European cities (including Leeds), and it is the particular qualitative approach to the study of social exclusion which gives this book its distinctive character: an approach which concentrates on particular *events* of exclusion (rather than on personal and family biography), on people’s reactions to events, and on the principles of legitimation employed in relation to welfare state resources: ‘earning’ them, being a ‘member’, and deserving ‘solidarity’ (p.8).

Unfortunately, the interview evidence is rather thin on some of the important issues (and this seems to be particularly the case in relation to the chapter on ‘subsistence’); but the authors have gathered sufficient evidence to enable them to draw some robust conclusions, amongst which are the following

- People do not accept charity easily. They do not want to be dependent. They would rather have a chance to ‘earn’ a decent living – not necessarily by wage labour or forced work for the community, but by work ..... they see as needed and meaningful.
- Family is a resource in difficult situations, but quite often it is also the source of difficulties. Unless it is based in strong patriarchal / matriarchal ideologies

(which cannot be re-instated after they have lost their material basis) and when instead it turns into an exchange relation, its character as resource becomes precarious. Its solidarity gets confined to short-time emergency support.

- Welfare compensation for situations of social exclusion are made difficult by their conditionality in three forms:

The insurance principle constitutes a selectivity of benefits according to regular, full-time and life-long wage labour. Those who do not fit this pattern are excluded and relegated to social assistance. With the latest economic developments, an increasing proportion of the labour force will not be in a position to meet these criteria.

Following a principle of economising, welfare benefits, which have always been made scarce and hard to get, are reduced and made conditional to means testing and other forms of (bureaucratic) eligibility.

According to a principle of multi-functionality welfare resources are organised under the assumption that they could at the same time function as regulators of the labour market, i.e. as incentives to accept wage labour. A clear separation of these functions might make things more manageable.

- Situations of social exclusion are best coped with by using a multiplicity of resources. Rules by which such combinations of sources of income (wage, welfare, family) are hindered are dysfunctional.

The principles above can most easily be met by a minimum income, or a 'citizenship income', or some similar unconditional provision of basic material resources for all (pp.268f).

## The Citizen's Income Trust Essay Prize for 2006

The Citizen's Income Trust invites entries for its 2006 essay prize. Entrants should be studying at a UK university during the academic year 2005/6 at undergraduate or graduate level. Essays should be in the fields of philosophy, political science, social policy, economics, or other social sciences; should be of up to 5,000 words in length; and should contribute to the current debate on the desirability and feasibility of a Citizen's Income: an unconditional, nonwithdrawable income payable to each individual as a right of citizenship. Provided that at least one entry is of sufficient quality the winner will be awarded a prize of £500 and the winning essay will be published in the Citizen's Income Newsletter.

Rules: A hard copy of the essay, along with the entrant's name and address, should be sent to: Dr. Malcolm Torry, Director, Citizen's Income Trust, P.O. Box 26586, London SE3 7WY, and an electronic version (in Word or Rich Text Format) either by disc to the same address or by email attachment to [info@citizensincome.org](mailto:info@citizensincome.org). Confirmation that the entrant is studying at a UK university needs to be sent, signed by a faculty member. The closing date is 1<sup>st</sup> May 2006. No trustees, employees, or former trustees or employees of the Citizen's Income Trust, or their relatives, may enter. The judges' decision is final, and no correspondence will be entered into.