

Citizen's Income *newsletter*

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Contents

Editorial: 'The Work and Pensions Select Committee's report *Benefits Simplification*' *page 1*

News *page 2*

Obituary: Hermione Parker, by Susan Raven *page 4*

Conference reports: *page 4*

Foundation for International Studies on Social Security (FISS), 'Social Security, Happiness and Well-being', June 2007, by Bill Jordan

Institute for Fiscal Studies, 'Reforming the tax system for the 21st Century: The Mirrlees Review', April 2007, by Anne Miller

Main article: 'Corporate Watch, Consumer Responsibility, and Economic Democracy: Forms of political action in the orbit of a Citizen's Income', by David Casassas and Sandra González Bailón *page 8*

Reviews: *page 13*

Stuart Adam, Mike Brewer and Andrew Shephard, *The poverty trade-off: work incentives and income redistribution in Britain*

Richard Berthoud, *Work-rich and Work-poor*

Christian Albrekt Larsen, *The Institutional Logic of Welfare Attitudes*

David Craig, with Richard Brooks, *Plundering the Public Sector*

Viewpoint: Critic of UBI (CI) wins Nobel prize for Economics, by Conall Boyle *page 15*

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Editorial

The Work and Pensions Select Committee's report *Benefits Simplification*

It is a real pleasure to read the Work and Pensions Select Committee Report, *Benefits Simplification*, published on the 26th July. The committee has studied the sources of complexity (and particularly tax credits and means-testing), the benefits of simplification, the possibility of introducing a 'complexity index', the effect of high marginal deduction rates on incentives to work, the claimant experience, and the Department for Work and Pensions' Benefit Simplification Unit. The final chapters of the first volume of the report discuss possibilities for incremental change towards greater simplicity and also possibilities for fundamental change.

Their conclusions and recommendations include the following:

- 'There is a direct correlation between the amount of mean-testing and the complexity of the system. We recommend that the Government specifically evaluates the current caseload of means-testing in the system as part of its simplification efforts and, where possible, reduces it.' (paragraph 51).
- 'The contributory principle adds an additional layer to the current system and research suggests it is no longer as relevant to the benefits system as it once was. We therefore recommend that the Government reviews whether or not the contributory principle remains a relevant part of the modern benefit structure' (paragraph 55).
- 'There is no Government Minister, department or unit which is attempting to address the combined and overlapping complexities of the benefits and tax credits systems. This omission must be urgently addressed' (paragraph 148).
- 'We recommend that the Government undertakes research to investigate whether there remain some groups of claimants for whom work does not offer the best route out of poverty, and more detailed analysis of the impact of high Marginal Deduction Rates in parts of the benefits system on overall work incentives' (paragraph 176).
- 'It is not enough to rely on 'masking' complexity; there is a need to go further and address the rules of the different benefits and the structure of the system itself' (paragraph 262).

- ‘The Government should establish a Welfare Commission, similar in format and remit to the Pensions Commission, which can take a holistic view, model alternative systems, and come up with a considered blueprint for a way forward. A benefits system which DWP staff, claimants and welfare rights advisers have a hope of understanding is in everyone’s best interests’ (paragraph 381).

A Single Working Age Benefit (SWAB)

This report is one of those cases where the most important material is in the appendix. Appendix A contains the committee’s detailed proposal for a Single Working Age Benefit (SWAB):

‘The SWAB would provide an income for anyone who is legitimately resident in the UK and is both willing and able to work (or is exempted from the latter criterion because of illness, disability or caring responsibilities). It would, therefore, replace Income Support, Jobseeker’s Allowance and the planned Employment and Support Allowance, and the need for any linking rules for people moving between them’ (p.108).

The SWAB would continue as an in-work benefit, and would be reclaimed through the tax system at a Government-agreed Marginal Deduction Rate (MDR) as wages rose until it was exhausted (the MDR taking into account current rates of income tax and national insurance contributions). The SWAB would therefore replace tax credits and all benefits withdrawal rates and would avoid the need for people moving in and out of employment to notify changes. People already in work would be able to claim the SWAB. The system would abolish means-testing at the point of application. Additions for carers and people with disabilities would be paid, and a SWAB claim would automatically trigger Housing and Council Tax Benefits.

Importantly, the SWAB would have no long-term rate (thus eliminating an employment disincentive), and the individual (and not the household) would be the claimant unit.

Nine tenths of the way to a Citizen’s Income

What will be clear to regular readers of this *Newsletter* is that the SWAB is nine tenths of the way to a Citizen’s Income and to all of the advantages which a Citizen’s Income would offer, particularly in relation to simplicity and to incentives to increase earnings. All

that would be required to complete the journey towards the greatest possible simplicity and employment incentives would be to replace the Marginal Deduction Rate with a reduction of personal tax allowances (which would have the same effect as the MDR), to remove the seeking-employment and incapacity tests (which, in the absence of an MDR, would become irrelevant), and to enable every individual to claim a SWAB, whatever their earnings.

A way forwards

The Work and Pensions Select Committee has put us all in its debt by publishing a wide-ranging and thorough report, and by suggesting a policy change which coheres with the conclusions it comes to and the recommendations which it makes. We would encourage Her Majesty’s Government to study the Committee’s report carefully, and in particular to give early attention to the contents of Appendix A.

In particular, we would encourage the Government to study carefully the evidence which the Citizen’s Income Trust submitted to the Committee: evidence which nicely complements the committee’s proposal.

The Select Committee’s report was published on the 26th July 2007 by authority of the House of Commons by The Stationery Office Ltd., ref. HC 463 (2 volumes). The first volume can be found at:

<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmworpen/463/46302.htm>

The Citizen’s Income Trust’s evidence to the committee can be found in the second volume on page Ev 84 at

<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmworpen/463/463ii.pdf>

News

The **second edition of Basic Income Studies** is now available on www.bepress.com/bis. Readers might wish to know that this electronic press has a guest access policy. Guests to the site can read articles once they have filled in a form which alerts their institution to the existence of the journal.

A **Joseph Rowntree Foundation research project** has shown that ‘point-in-time studies underestimate the scale of poverty in the UK. Over an eight-year period, a third of the population experience poverty at least once: twice as much as the poverty rate at any one time’. The ‘dynamics research’ approach has highlighted three different types of poverty: transient, persistent and recurrent. While most people who enter

poverty leave quickly, a minority experience persistent poverty. The study has also found that poverty in one generation increases the chances of poverty in the next. The full report, *A Review of Poverty Dynamics Research in the UK*, is available as a download from www.jrf.org.uk. The report concludes: 'strategies to eradicate poverty are undermined if they "cream off" those experiencing transient poverty, if persistent poverty is not targeted, and if re-entry is not safeguarded against.'

The Conservative Party's **Social Justice Policy Group** has published its report, *Breakthrough Britain*. Volume 2, on 'Economic Dependency and Worklessness', suggests as a policy proposal that 'at low wages, there should always be a tangible reward for working longer hours, and/or working for higher wages. Our focus should be on ensuring that the net minimum wage is rewarding, rather than simply looking at gross minimum wage. Hence, for gross incomes below 40 hours per week at minimum wage, we should seek to reduce the marginal tax and benefits rate over the long term, so as to ensure worthwhile take-home pay' (p.91). To see the report, go to http://www.conservatives.com/tile.do?def=news.story.page&obj_id=137513

The **Institute for Public Policy Research (IPPR)** has urged the government to abolish jobseeker's allowance, income support, incapacity benefit and carer's allowance and introduce instead a single benefit paid at one flat rate for all out-of-work claimants. In a research report, *One for all: active welfare and a single working age benefit*, IPPR argues that the current benefits system is too complex to be effective, presenting barriers to claimants who want to move into work, and that a single benefit with entitlement based simply on the grounds of not being in work would be fairer and more transparent. Under the IPPR proposal

- the new benefit would be calculated on an individual rather than household basis, reducing the need for people to register changes of personal circumstances;
- anyone of working age who is out of work would be guaranteed a basic replacement income for 12 weeks and would not need to have a medical assessment or lengthy means test;
- the level of the benefit would be the same for all claimants regardless of why they are out of work, their previous work record or the length of time on the benefit;

- after the initial 12 week period there would be a means test that would ensure resources would be targeted only at those in financial need;
- there would be no risk to a claimant's benefit if they tried working because the benefit would be the same before and after a period in work;
- income replacement benefits and additional needs benefits would be separated so that the level of the former could be set at a level that 'preserved work incentives for all'; and
- needs-based benefits such as disability living allowance would be enhanced and would ensure extra needs were met.

Based on these changes applying only to new claimants, and if the level of the benefit was set at £60 a week for an individual, IPPR suggests that the cost of the proposal would be between £400 million and £1 billion, representing 5.1% of the DWP's annual budget.

For more information, see the report at <http://www.ippr.org.uk/publicationsandreports/publication.asp?id=552>

Help the Aged has reported that many pensioners find the present benefits system muddled and confusing. There are 23 different benefits, each with different criteria. The charity says that the whole system needs simplifying if older people are to benefit from it properly. In particular, Help the Aged wants to see an end to means testing. Many older people feel uneasy revealing details of their personal and financial affairs. The Government must find a fairer way to ensure that all older people receive the money they are entitled to. To see the report, go to <http://www.helptheaged.org.uk/en-gb/Campaigns/PensionsAndBenefits/Benefits/default.htm#we>

The **Centre for the Analysis of Social Exclusion** at the London School of Economics has discovered considerable short-term variability in the incomes of many low income families. These findings 'highlight the dilemma facing those administering systems such as tax credits. Such systems can be run on a basis of fixing payments for a while on the basis of past income. Alternatively payments can be adjusted to reflect current incomes. On the one hand, the degree of volatility we find suggests that the justice involved in basing tax credits on past incomes would be rough. On the other, this volatility makes administration of a system intended to adjust for it during the year – as the new tax credit system attempts – very difficult indeed'

(quoted from the CASE annual report for 2006. For the full report see J.Hills, A. McKnight and R. Smithies, *Tracing Income: How Working Families' Incomes Vary Through the Year*, HMRC Research Report 15 / CASE Report 32).

Obituary

Hermione Parker

Political economist, parliamentary research assistant, writer specialising in income redistribution, and co-founder in 1984 of the Basic Income Research Group.

We regret to announce the death of Hermione (Mimi) Parker on 11th July. She had been ill for some time and leaves a widower, Arthur, three daughters and nine grandchildren. She was one of the group of people who, back in 1984, founded the Basic Income Research Group, from which the Citizen's Income Trust developed. She edited our *Bulletin* (writing most of it herself) until well into the 1990's.

Born in Quetta in 1928, she was the daughter of Brigadier George Fothergill Ellenberger, through whom she had strong links with the Quakers. She was educated at Priorsfield School at Godalming, and then at St. Andrew's University, where she was awarded a double first in Politics, Political Economy and Modern History. She spoke French fluently and some German.

After university she worked in Paris where she learned to cook before moving to Berlin and working in military intelligence. There she met Arthur Parker, then a professional soldier, to whom she was married for nearly 50 years. The next years were devoted to bringing up their three daughters and living wherever Arthur was posted.

As the girls became more independent she became a Parliamentary Research Assistant at the House of Commons, and worked for Nick Edwards (now Lord Crickhowell), Sir Ralph Howell, Lord Gilmour and Sir Brandon Rhys Williams.

In 1989 she published a book on the subject of the integration of the tax and benefit systems, *Instead of the Dole*. It put forward the idea of a Basic Income Guarantee as a feasible alternative to our present welfare state.

In 1987 she also founded the Family Budget Unit and thereafter served for many years as its director and driving force. She was responsible for reports on

budget standards for families in 1998, for pensioners in 2000, and subsequently for Muslim families and low paid families in the East End of London in 2001.

After Arthur retired from the army, they moved to Pirbright, in Surrey, where Mimi created a beautiful garden and kept a horse in the meadow beyond. She learned to ski in Austria as a girl which was a lifelong interest, and played both the piano and the violin. She was a person of impressive energy and intelligence and her contribution to any cause she supported was always invaluable.

Susan Raven

Conference reports

Institute for Fiscal Studies conference, 'Reforming the tax system for the 21st Century: The Mirrlees Review' (Cambridge, 12th to 14th April 2007)

Report by Anne Miller

The purpose of the Mirrlees Review is '... to identify the characteristics of a good tax system for any open developed economy in the 21st century, to assess the extent to which the UK tax system conforms to these ideals, and to recommend how it might realistically be reformed in that direction.' Sir James Mirrlees is an eminent Scottish economist and Nobel Laureate. The Review is funded by the Nuffield foundation and the Economic & Social Research Council.

This conference was very well attended by some 140 delegates (with a waiting list), from a variety of backgrounds including from academia, the not-for-profit sector, civil service, professions, and business. The press was represented by the *Financial Times* and *The Economist*.

The project was inspired by the approaching 30th anniversary of the 1978 Meade Report (IFS, 1978). When the Meade Report was published, being aware of his endorsement of social dividend schemes, I was disappointed to find that a full social dividend scheme was rejected by his committee in favour of a two tier social dividend or a new Beveridge Scheme, on the grounds that the necessary income tax rate to finance a full SD of 40% of annual income would be 55% (pp. 271-2). Much of the discussion of these alternative schemes was taken up with presenting various means by which benefits could be made to respond to different circumstances (i.e., complicating it).

Working drafts of the eleven chapters for the Mirrlees Review had been posted on the IFS website before the conference. They covered the following subject areas: Taxation in the UK; Political economy; Tax rates on family earnings; Indirect taxes; The main household tax base; Wealth taxation; Tax implementation issues; Company taxation; Taxation of international capital; Small business taxation; and Environmental taxation. All of the papers are labelled as 'Draft paper – please do not quote without the authors' permission', and the website explains that the factual evidence in them cannot be guaranteed for accuracy at this stage, and that the authors' views expressed in them will not necessarily represent their final ones, since the process is expected to be interactive, and they welcome comments on the drafts.

The format for most sessions, lasting about 70 minutes, took the form of a short presentation of the chapter, followed by one or two commentaries, each lasting about 10 minutes, to which the authors responded, followed by 30 minutes of discussion from the floor. This was quite a tight schedule as so many people wished to comment. Fortunately, time-keeping during the sessions was well disciplined. The conference was intense and hard-working. On the last day there were five overview sessions.

While most of the conference was taken up by other aspects of taxation, there seemed to be a general consensus that income maintenance was probably the area that needed the most urgent changes. Delegates thought that the income tax returns were long enough, but they were horrified at the even greater amount of information that was required from claimants every time that they had a change in their lives. There was also some comment about the large amount of economic theory in the papers, and a lack of sociology or psychology. This may reflect the fact that only 5 of the 32 authors of the eleven chapters were women, and none were sociologists or psychologists.

It was also acknowledged that lobbying by different interest groups, usually on behalf of privileged groups, led to the many distortions and anomalies in the tax system.

The chapter about tax rates on family earnings, with the working title 'Optimal Household Labor (*sic*) Income Tax and Transfer Programs', was the one that interested me most, with its relevance to our own Citizen's Income concerns. This chapter was one where the comment about a superfluity of economic theory was relevant. Nearly half of the paper is devoted to a fairly mathematical exposition and

analysis of optimal tax theory, which tries to arrive at a trade-off between redistribution and the increased tax rates on income that result, creating greater disincentives to work. Even if its results are directly relevant to the design of benefits and personal income tax, for most of us this could be delegated to an appendix. One suspects that its inclusion was in deference to James Mirrlees' chairmanship of the review, such subject-matter being the main work for which his well deserved Nobel Prize for Economics in 1996 was awarded.

To me, this chapter on family earnings reads like a comedy review of the 'good news, bad news' type, but without the comedy. It recognises many of the shortcomings of the Tax Credit systems currently in place, and recommends replacing Tax Credits, Income Support, Job Seekers Allowance and possibly Child Benefit, with a new system to be called Family Allowances. This would be payable on an individual basis (good news), but would pay less to the partners of a couple than to a single adult (bad news), giving £40 pw to each single adult, £80 pw to lone parents, £66 pw to a childless couple, £82 pw to a couple with children, and £47.60 pw for each dependent child, paid to the mother. The penalisation of couples does nothing to reduce the complexity of the system, nor does it get rid of the distasteful cohabitation rule. Nor was the problem of defining a non-married couple addressed. One fairly convincing economic law predicts that if the price of something is increased, people will choose less of it. The penalisation of marriage and cohabitation could contribute to the break up of two parent families, especially those on low incomes, where family finance is one of the main causes of divorce and separation.

The recommendations are designed to avoid the very high effective marginal tax rates which arise from the withdrawal of Means Tested Benefits and the payment of income tax at the same time. This is to be brought about by increasing the income tax thresholds for each group (good news), so that after a £100 pw earnings disregard, the withdrawal of Family Allowance at 45% is completed first, before becoming liable for standard rate income tax. (This is effectively a type of Negative Income Tax system - good news). The standard rate will become 25%, by abolishing the current 10% rate and raising the current 22% rate to 25%. Adding 11% National Insurance contributions gives an effective rate of 36%. Then all tax payers become eligible for the higher rate of income tax of 40% at the same threshold of gross income as currently (£39,825 pa), making for some complicated administration (bad news). They

were also considering the introduction of a higher rate of taxation of 46.5% on gross incomes of about £60,000 pa.

Why introduce 4 different rates of tax at roughly the same rate (45%, 36%, 40% and 46.5%)? Why not just have a flat rate tax of 40% between the £100 pw earnings disregard and the higher rate tax of 46.5% (or even 50%) on gross incomes over £60,000 pa?

While the Children's Family Allowance is to be paid to the mother (good news), it is also withdrawn from the mother at the 45% rate (bad news), compared with Child Benefit, which can be regarded as the child's income but administered by the mother. Child Benefit is easily the most effective, efficient and successful income transfer system that we have ever had. Why get rid of it? Why not extend it?

Lastly, the Family Allowance is for all families with children, low-income people without children, and unemployed people (good news), but there will be a work availability requirement for this latter group (bad news).

There was much of interest in this conference. The once-in-a-generation opportunity to review, and maybe influence the reform of, the tax system is very exciting. There were some obvious omissions. For instance, while the increasing inequalities in income are well known, the greater and increasing inequality of wealth was acknowledged, but not addressed. There was a section on the taxation of income from capital (interest and dividends), Capital Gains Tax, and the taxation of capital transfers, but nothing on taxation of the holding of wealth. There were references to a Land Value Tax, but no meaningful proposal or analysis.

The chapters, and the comments made on them at the conference, are available on the IFS website, and they make for stimulating reading.

References:

The Institute for Fiscal Studies, 1978, *The Structure and Reform of Direct Taxation: Report of a Committee chaired by professor J.E. Meade*, London: George Allen & Unwin.

www.ifs.org.uk/mirrleesreview/

Foundation for International Studies on Social Security (FISS), Fourteenth International Research Seminar on Issues in Social Security, 'Social Security, Happiness and Well-being' (Sigtna, Sweden, 15-17 June 2007)

Report by Bill Jordan

This conference tangled with questions which have traditionally been avoided in social security studies. Whereas both econometric analyses of distributional effects and surveys of policy consequences have been mainly concerned with final incomes, these papers squared up to doubts about whether income is really a reliable indicator of the quality of life of its recipients.

This radical departure has been brought about by the findings of research on well-being, understood either as successive moments of happiness or misery, or as overall satisfaction with life. Because the Citizen's Income principle deals in cash transfers, the lack of any long-term correspondence between rising incomes per head and measured Subjective Well-being (SWB), in affluent countries especially, is as much a challenge to this as other social security approaches.

Should the evidence of a minority of poor people who are as happy as their richer counterparts affect our principles for redistributive equity? Is the finding that believers and religious activists enjoy higher levels of SWB grounds for faith-based welfare agencies? Are citizens of countries with large social assistance components of their benefits systems less supportive of poverty relief and if not (as turns out to be the case), what does this imply about the stigma of poverty in such societies?

The participants in this seminar were clearly both puzzled and invigorated by these questions. They felt licensed to trade in qualitative examples of anomalies, and to speculate about quirky statistical patterns. There was a rich diversity of examples, from East Asia and the Middle East as well as Europe and North America. The index of children's well-being, which left the UK at the bottom of the OECD league table, provoked almost as much controversy here, when presented by Jonathan Bradshaw, as it had in the media in April.

The opening papers set the terms for the debate. Robert MacCulloch showed that the advantages, in terms of equality and security, produced by welfare states were demonstrable, but that the failure of Subjective Well-being to rise in line with average incomes demanded explanation. Neither the idea of adaptation to higher consumption levels, nor that of the existence of some unexplored missing variables (such as long working

hours, insecurity of employment, stress or pollution) was entirely convincing. Why does an individual's measurement of SWB so quickly revert to near its previous level after rising with a pay increase, yet remain lower for much longer after sudden redundancy or the loss of a partner, for example?

Erik Schokkaert argued that the answers are not to be found in reversion to Benthamite utilitarianism (recording our happiness on hedonimeters from moment to moment), but in refining Amartya Sen's capabilities approach to well-being. The latter sees human flourishing as made up of a number of 'functionings', including freedom, health, education, employment and mobility, but has difficulty in indexing them within a combined measure of well-being; perhaps overall, reflective satisfaction with one's life might supply this? But he advocated eliminating those elements of SWB which involved personal choices, such as marriage and religious faith, as 'ethically non-relevant' for distributive equity, despite their strong influence on measured outcomes. Some participants questioned his justifications for 'responsibility-sensitive egalitarianism'.

Bernard van Praag, one of the pioneers of happiness research, presented global data on the ageing of human populations, and the challenge for social security systems. Although older people tend to be happier than those in middle age, this trend undermines social security systems, not only because of rising costs of pensions, but also because of the risks of isolation from social sources of well-being in increasingly mobile and consumption-oriented societies.

Of the many other papers, some of which were given in parallel session, three dealt specifically with CI as a policy proposal. Tony Fitzpatrick analysed the relationships between streams of unconditional income which were (paternalistically) released over time, and one-off or occasional lump sums (grants or dividends) of the kinds advocated by Ackerman and Le Grand. He showed that it was possible to present arguments for combining these two principles in several ways. Hartley Dean contrasted 'hedonic' and 'eudaemonic' approaches to social security, and examined the implications of the Aristotelian version of the good life (civic duty and intellectual fulfilment) for social security. He considered the Global Left's demands for a universal basic income in this context. My own paper looked at whether CI would better enable the exchanges of social value (care, respect and the sense of belonging) which are more important components of SWB than purely material goods, and concluded that it

could, if cultural and public service shifts supported a transformation of this kind.

Linked with this last point, several of the papers considered the forms taken by measures for poverty relief and income protection, from the standpoint of how they distributed social esteem or stigma. Michael Russell's research investigated why Russian war and work veterans, the main beneficiaries under the Soviet system, came out in mass protest at the conversion of their in-kind subsidies (travel concessions, rent reductions, fuel allowances, etc.) into cash benefits. This was mainly because such subsidies had been given as privileges, associated with high status and public recognition, whereas cash was seen as a lowly form of compensation, which was in many cases less successful in achieving full social inclusion.

Another example was the form of poverty relief taken in the Lebanon. Rana Jawad's paper analysed the moral and religious basis for the support given by religious agencies, mainly to women and children. The ethos for these systems is similar to that of such charities as the Charity Organisation Society in nineteenth century Britain, yet they command high loyalty and commitment from donors and recipients, and supply some of the explanation for the support mobilised by Hizbullah.

The challenge for CI advocates is to show how a proposal which at first sight might seem the logical counterpart to extreme liberal, individualist economic relations might be made consistent with more solidaristic and communal social relations, in which those who used their CI for informal cultural and political activities are given high esteem. Neither the paternalism of Soviet privileges, nor the sectarian basis for Lebanese social support, fit the conditions for a diverse, secular, multi-ethnic society, but both should cause us to reflect on the bases for the esteem and inclusion that are essential aspects of well-being.

The advantage claimed by CI, that its unconditionality allows greater access to the goods of self-respect and citizenship than the selective coercions of welfare-to-work can deliver, are nullified if those who do caring and community work are not valued for their contributions. This point was reinforced by the finding in Monika Mischke, Michaela Pfeifer and Claus Wendt's paper, that in EU countries with large social assistance sectors (such as Ireland, the UK and some Mediterranean states), support for a 'guaranteed minimum income' for citizens was higher than in countries with more comprehensive social insurance provision. In other words, the argument against

selectivity – that it confers stigma on recipients – may be offset by various cultural factors, perhaps including the recognition that brute luck is a major factor in poverty, especially in conditions of rapid economic transformation.

Among the other interesting papers was one by Beverley Searle and Susan Smith, which examined the idea that housing wealth might act as a substitute for income maintenance safety nets in a post-Thatcher 'property-owning democracy'. Home ownership is now widely used as the means of access to a stream of credit in the UK; the paper related mortgage equity withdrawal as a substitute for other types of loan (or benefit) to rates of well-being. Having a housing asset confers a 'feel-good' factor (safety against uncertainty), and can also smooth income after unemployment or marital breakdown; it already plays an important role in strategies for household financial management.

However, those whose homes are their only investments are vulnerable to price variations and must work hard to sustain their value; they score lower on SWB than those who have a wider financial portfolio, or those who lack an investment strategy.

This finding mirrors many others in research on the human consequences of economic restructuring in countries such as Australia and the USA. Housing wealth is sought after and used as a welfare resource, which offsets the cutbacks in benefits and public services characteristic of such regimes. But this illustrates the changing character of the 'welfare' enjoyed by citizens in Anglophone countries, which stems from neither solidaristic inclusion nor egalitarian membership, but from competitive, possessive individualism. This form of 'welfare' seems to diverge more from well-being than its predecessor. In many ways, the conference, like the debates in psychology and economics which led to it, signals a recognition that a model for public policy which conflates welfare and well-being within the concept of 'utility' (or uses money as a proxy) is in danger of pointing us towards an impoverished quality of life.

Meanwhile, there are plenty of dilemmas for income maintenance in those countries, which have been less gung-ho about economic restructuring, as was demonstrated by several papers from Swedish participants, and by two from Japan. The latter showed how that state's policies are adapting to a combination of economic stagnation and the ageing population, through a long-term care element in social insurance provision. Having studied the German and Dutch

systems, they have opted for an in-kind version, with no option for claimants to receive their support in cash. Given that our UK model is moving towards 'individual budgets' for the purchase of packages of long-term care, this is an interesting divergence; but not, it seems, one that directly addresses well-being.

The Japanese government fears fraudulent claims which have cost the German system, with its cash option, heavily. Some issues persist in one form or another through every change in the organisation of social protection.

Main article

Corporate Watch, Consumer Responsibility, and Economic Democracy: Forms of political action in the orbit of a Citizen's Income *

By David Casassas (Department of Politics, University of Oxford) and Sandra González Bailón (Nuffield College, University of Oxford)

The political power of private corporations has grown in the last decades and some governments have used their power to favour the private interests of corporations (even by cutting individual rights and liberties, or promoting processes of re-militarisation in areas of geopolitical interest) and it is difficult still to claim that globalisation works at the margins of politics. In the same way that the British Empire was, during the 17th and 18th centuries, a necessary condition for British capitalism, the great economic powers of today use the influence of states to consolidate their positions of privilege in markets of strategic interest.

This scenario has prompted the emergence of certain forms of resistance. Campaigns of consumer and stakeholder activism have, in some instances, forced big companies to use concepts such as social responsibility, business ethics, environmental policies, community development or corporate governance. Despite the possible hypocrisy of the means, these campaigns open a space where citizens can pursue

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their goals: in exchange for a good image (and higher sales), corporations are pushed to adopt measures that protect their products from the ethics of consumers; and consumers get, in return, a bit of the terrain stolen from their sovereignty. The will that citizens once expressed with their votes (regardless of the attention that such may have received ¹) can now also be expressed at petrol stations, sports departments, and supermarket tills – at least, to the extent that social structure allows: citizens who participate in these processes belong mostly to the middle and upper classes of the northern hemisphere.

Against that background, this paper poses the following question: can a Citizen's Income (CI) contribute to the conditions that promote a consumer ethics? The question that this paper poses is threefold. First, can a CI favour a distribution of paid employment time in such a way that citizens can obtain a critical distance from the workings of the machinery in which they take part and obtain a perspective from which to scrutinise the product being generated? Second, can a CI equip 'consumer-citizens' with a purchasing power which enables them to exert a real influence on the behaviour of corporations? And third: can a CI guarantee to the 'producer-consumer-citizens' a fallback position that allows them to increase their bargaining power in the labour market?

It seems reasonable to think that, with a CI, individuals could participate in (and take greater command of) a process in which, right now, their opinion – their *voice*² – is not being considered. Can a CI empower citizens by linking their role as consumers with their role as producers? Can it provide them with the capability to demand, both as consumers (with a renewed purchasing power) and as producers (with a greater resistance power) more democratic contractual and organisational forms of labour, closer to that which they would really choose in conditions of full liberty and autonomy? ³ As Erik Olin Wright has already

suggested, ⁴ a CI could decommodify labour, strengthen its power in relation to that of capital, and open a way towards new forms of organisation, freer and more autonomous, both in production and consumption: something that could pose a real challenge to the ugliest aspects of capitalism.

In answering those questions, this paper aims to find the point of convergence between the strategies of corporate watch and the proposal for a CI. Exercising citizenship in a world run by big corporations demands having the ability to decide in the marketplace – of goods and services, but also of labour. Our claim is that a CI would promote the expansion of this new form of political expression and ethical consumption beyond the middle classes; it would make it as universal as the vote is now. The effects that, in the long run, would follow the introduction of a substantial CI (equivalent, at least, to the poverty line) would surely be radical and irreversibly linked to the configuration of new relations of power, both in the consumption and the production spheres: freer individuals *from the demand side* (of commodities) would choose their goods and services with a higher responsibility, and freer individuals *from the supply side* (of labour) would choose how to produce with higher autonomy. But these lines do not aim that far: having placed the case for the universal right to vote in the background, the objective of this paper is simply to highlight the complementary relationship that exists between a new way of social protest and the support promised by the introduction of a CI.

However, introducing a CI would not necessarily lead to more conscientious consumers, or to a higher civic pressure on corporations. First, consumers might use the resources made available by a CI to fulfil an apolitical consumption: that is, they might use those resources with no intention whatsoever to reward or sanction corporations. There is no evidence to support the assumption that a degree of political commitment in this particular area would develop. ⁵ Secondly, in contemporary capitalism the marketing apparatus of corporations very often determines the demand for their products and, ultimately, the functioning of markets. And thirdly, with a CI, strategies to put pressure on corporations would most probably still be restricted to consumers of certain sectors of the middle classes in the developed world.

¹ Many states have a disguised limited suffrage – those with minimal levels of participation, absence of real political alternatives, indifference to political institutions by large segments of the population left behind socio-economically and symbolically, etc.

² We take the terms 'voice' and 'exit' in the sense given by A.O. Hirschman in his classic *Exit, Voice, and Loyalty: Responses to Declines in Firms, Organizations, and States*, Cambridge, MA: Harvard University Press, 1970.

³ We recall here the assertion of the late John Rawls (*Justice as Fairness. A Restatement*, Cambridge, MA: Belknap Press of Harvard University Press, 2001, p. 257): '[w]hat men want is meaningful work in free association with others'.

⁴ Wright, E.O. (2005): 'Basic Income as a Socialist Project', *Basic Income Studies*, Vol. 1, no. 1.

⁵ One could claim that there is no evidence, either, against such an assumption.

Having said that, a CI properly integrated with the tax system would confer a level of economic security that would allow individuals to scrutinise the production process and choose alternative ways to consume *should they wish to do so*. We can even claim that, with a CI, the decision to maintain consumption patterns could be seen as a decision taken in a condition of greater autonomy. In other words, corporate watch, consumer responsibility and the fight for economic democracy, like all forms of social and political action, are 'income-sensitive' forms of social and political action. Individuals can take part in them if they enjoy the material security that is necessary to do so, that is, to devote their spare time (and their energy) to fight for other forms of production and to foster the ethics of consumption. This is precisely the reason why those who engage in campaigns of responsible consumption tend to belong to middle and upper social classes. Our claim is that a CI would lower the threshold from which citizens might consider taking part in those campaigns, and allow them to take decisions from a more autonomous position, either as consumers or workers. The economic security that a CI would grant to individuals would not constitute more – but not less either – than a condition of possibility.

The Pressure: Strategies of Boycott and the New Consumer Ethics

In the mid-nineties the oil and gas company Shell became the target of a boycott launched by consumers against its environmental practices and its collaboration with the corrupt government of Nigeria. This episode of consumer belligerency marked a turning point in the expression of political activism and showed that citizens are still willing to make use of their political power, but from a terrain where traditional politics is not sufficient, namely by using their purchasing influence to promote changes in the policy of corporations. These incidents also showed that the loss of popular sovereignty is being confronted by citizens (or, at least, by those citizens with their daily subsistence guaranteed) who aspire to recover it by trying to re-politicise their participation in the production and consumption spheres.

Together with selective purchasing, other strategies have also put pressure on multinationals. A lawsuit by McDonald's caused an impact on public opinion and revealed how different the reality of a corporation can be under the cellophane of their corporate image: deplorable labour conditions, cruelty to animals, the use of not very healthy raw materials, and abuses of

marketing power were uncovered by the two English ecologists who, also in the mid-nineties, were taken to court by the company.⁶ Even though such libel lawsuits are still a guarantee of victory for big corporations (which find in the law – and in their substantial resources to make use of it – an efficient instrument to criminalise the dissidents that make public their *voice*), the victory of this strategy was bad publicity: a counterweight to marketing, and a window that breaks the disinformation so often promoted by corporations.

Finally, a third strategy in the cause of business ethics has been timidly activated – though with clear signs of its political potential – from the very heart of corporate power: it is the pressure that, from their shareholder positions, citizens and groups can exert through corporations' Annual General Meetings. Ethical demands have found in investments a way to influence decision processes. Again, the success of this strategy does not reside in its power to affect directly the corporation policies, but in its ability to generate negative publicity. This is exactly what happened at the AGM of the petrol group BP, at which a coalition of environmentalists and ethical investment groups arrived disguised as polar bears to protest against the activities of the company in the Arctic Ocean.⁷ What this strategy manifests is the importance of having access to the status of owners, besides that of consumers, in a world where the most important decisions are being taken in private forums.

Our question here is: can a CI provide the necessary material and civil independence to allow individuals to make use of AGMs, with a real independence of thought? Can a CI favour an autonomous process in which individuals can form their preferences with regard to the spheres of production, consumption, investment and financing? Can a CI act as a catalyst for these proposals of social innovation – from corporate watch and responsible consumption to ethical banking or cooperativization?

All in all, the three strategies explored so far (selective purchasing, lawsuits to force corporations to be transparent in their activities, and the pressure that citizens can put on corporations as shareholders and investors) share a common objective: to hold corporations accountable for the political implications of their activities and to enable the market to ameliorate the lack of accountability exercised by

⁶ Klein, Naomi (2000), *No Logo*, London: Flamingo, p. 387.

⁷ Hertz, Noreena (2001), *The Silent Takeover*, London: William Heinemann, p. 125.

institutional politics. The philosophy that underlies these initiatives is to establish a *consumer ethics* to fill in the gap left by the absence of an *economic ethics*. In practice, the aim is to use the only language understood by corporations (their sales) to encourage respect for human and labour rights, the protection of the environment, the promotion of investments founded on ethical principles, and sanctions against oppressive regimes – so often maintained by the corporations themselves - by withdrawing investments. The new consumer ethics seeks to incorporate all these elements in the equation of costs and benefits that determines the corporation's priorities, and it does so by re-politicising all of the areas that globalisation has left exposed and by making use of the same instrument which drives other corporate priorities: the market.

What we aim to analyse here is to what extent the coordinated action of consumers could become a real *monopsony* (monopoly purchasing power) in which the only buyer could dictate to the suppliers – be these many, few or just one - the conditions of production and sale. What we claim in the next section is that such a possibility is reinforced when it is accompanied by a CI as this guarantees the material independence and the freedom necessary for citizens to judge the productive process in all its dimensions. Before developing this, though, we will explore some of the impacts of this consumer strategy.

The Consequences: Consumer Responsibility and Economic Democracy in the orbit of a Citizen's Income

Whilst some might argue against crossing the frontier that separates politics from businesses, the reality is that big corporations have crossed that line on multiple occasions: for example in Germany, after Schroeder's first government attempted to increase taxes on corporations. A coalition of these, including Deutsche Bank, Allianz and BMW, threatened the government with relocating their plants and investments in low cost countries. In the words of one of the spokesmen of the coalition, the matter affected no less than 14,000 workers. The episode ended with the resignation of the Finance Minister and with a plan to reduce taxes which took them to lower levels than in the United States.⁸ The list of similar episodes has grown in recent years in all countries of the (so-called) advanced economy.

It is here that the CI proposal finds common ground with the movements of responsible consumption. The

⁸ Hertz, N. (2001), pp. 53-54.

argument is more fundamental than programmatic: it is not just that by giving a CI to every citizen they will have a greater power in relation to corporations. It is rather that, given the circumstances, the republican dictum according to which there is no freedom without material autonomy has become truer than ever.⁹ In particular, if corporations occupy a progressively larger political terrain, and one of the few ways of putting pressure on those non-elected organisms is acting as both workers and consumers with a reinforced social position, then the resources guaranteed by the right to a CI, on which that action can be based, appears as a condition for the individual's participation in the production and consumption spheres. It is only in this way that they can get closer to their condition as *citizens*. To the scream of 'don't vote, shop',¹⁰ a CI contributes a guaranteed condition of material and civil independence; that is, of *citizenship*.

If big corporations have started to worry about the social impact of their activities it is because they have discovered that it is in their interest to do so: because it is their names and their sales figures which are at stake, and because to have workers in good conditions allows them to be more productive. The more sanctions individuals can impose with their purchases, the more hostile to the pure economic profit will become the niche to which corporations will have to adapt. The question is not whether they have to be ethically responsible; the question is rather that their customers – *some* customers from *some* places, at least - ask them to be responsible in order to recover their power. If citizens see in their purchases, more than in their votes, a means of political pressure, then a CI appears to be one of the few ways in which to make real the right which every citizen has to participate in politics.

But we can go still further. A CI constitutes a tool able to generate a real *deal* between capitalists and consumers-producers, a deal aiming at the heart of the production and consumption processes of contemporary societies. This is a *true* deal - not a resigned submission - brought about by the twofold threat that the consumers-workers can pose to the owners of the means of production: denying their purchase (of certain products) and denying their production (for certain brands). The capability to deny

⁹ Domènech, Antoni (2004), 'Basic Income and the Present Threats to Democracy', *10th Congress of the Basic Income European Network*, Barcelona, September 2004.

¹⁰ Hertz, N. (1999), 'Better to Shop than to Vote', *New Statesman*, 21 June.

consumption and to deny production could become a power of resistance (and the right to resist) of those occupying the most vulnerable positions, enabling them to match the bargaining positions of capitalists.¹¹

A CI opens the channels to turn what was an *ignored voice* into a real *exit*: exit from *certain* channels of distribution and consumption, on the one hand; and exit from *certain* units of production, on the other. It is in the interest of the owners of the means of production to *retain* the consumers-workers; and this makes it feasible to think that they would finally attend this twofold demand: the demand on the labour side understood as complementary to the demand from the consumption side. Dismissing the first demand carries the danger of leaving corporations both without consumers and without producers.

In this situation, the owners of the means of production would realise the necessity of taking the rights of individuals (consumers and producers) seriously. Indeed, it is not a matter of letting companies that are governed by non-accountable actors decide, under temporary pressures, that they want to achieve an agreement with those putting the pressure on. Nor is it just a matter of creating the possibility for these companies to put a kind face to their equally despotic attitude, as a benevolent dictator would. The introduction of a CI would mean that corporations would be forced to assume the interests of the consumers-producers. In this sense, the constitutional guarantee of a CI equals the 'constitutionalisation' of companies.¹²

The issue is not to trust that corporations really produce in ethically desirable conditions, as those who talk about companies' 'capital of trust' believe; it is rather about having the certainty, as consumers, that the workers had the possibility to 'exit' the production process when ethically unacceptable labour conditions were imposed on them. It is also about providing these workers, fighting to obtain fairer labour conditions, the purchasing power to interfere in the formation of the production processes as potential consumers capable of

rewarding or sanctioning corporations through their purchases.¹³

The possibility exists, then, that the same measure – the CI – can stimulate the struggle for two objectives that are, in fact, complementary: to strengthen the bargaining position of non-owners as workers; and to provide those individuals with the required signs to transform the 'trust in corporations' into 'security with respect to their behaviour'. In the extreme, with a CI, only those goods and services produced in a process where the owners were able to *retain* their workers would reach the market. Both demands – that of the workers and that of the consumers – stem from the same concern: to create a social and economic order where production, exchange, and consumption develop in conditions of freedom.

It has been already mentioned that without material autonomy the idea of freedom is reduced to an empty motto. At the same time, it is true that the material autonomy that a CI would confer is a necessary, yet not sufficient, condition for the enjoyment of freedom – individual and collective freedom. In this sense, it must be noted that recognising the presence of relations of power at the core of social life (that is, the *politicisation* of the analysis of social and economic life) enables the urgent re-articulation of the political sphere that contemporary societies need, once the actors that dominated it have lost their hegemony and, with the introduction of a CI, power is re-distributed in a more homogeneous fashion.¹⁴ This way, the fight against the *dominium* (the eradication of the ties of material dependence among individuals and thus the constitution of a society effectively civil); and the fight against the *imperium* (the fight in favour of the articulation of political institutions freed from the greed of big corporations) appear as peaks to be reached at the same time. And, in this ascent, the CI has, we believe, a lot to offer.

¹¹ For an analysis of the bargaining power that social agents have in a context where resources are scarce see Elster, Jon (1990) *The Cement of Society. A Study of Social Order*, Cambridge: Cambridge University Press.

¹² For an analysis of the significance and meaning of the processes of 'constitutionalisation' of companies see López Arnal, S. (2005): 'Entrevista político-filosófica a Antoni Domènech', in M.J. Bertomeu, A. Domènech y A. de Francisco (eds.), *Republicanism y democracia*, Buenos Aires: Miño y Dávila.

¹³ We assume here that a CI would increase the purchasing power of the middle and lower classes.

¹⁴ Raventós, D. y Casassas, D. (2005): 'Republicanism and Basic Income: The articulation of the public sphere from the repoliticisation of the private sphere', in G. Standing (ed.), *Promoting Income Security as a Right. Europe and North America*, London: Anthem Press.

Reviews

Stuart Adam, Mike Brewer and Andrew Shephard, *The Poverty Trade-off: work incentives and income redistribution in Britain*, Policy Press, Bristol / Joseph Rowntree Foundation, York, 2006, viii + 55 pp, paperback, 1 86134 863 0, £12.95

It would be difficult to better the first three paragraphs of this report as a description of the dilemma facing policy-makers:

'If you offer someone money on condition that they have a particular characteristic, you give them an incentive to acquire or keep that characteristic. That is the fundamental source of the trade-off between income redistribution and work incentives that confronts all governments with a dilemma.

'Concern for poverty or inequality motivates governments to want to redistribute income, but providing benefits on the basis of low income reduces the incentive for people on low incomes to work themselves out of that position (over and above additional disadvantages of means-tested benefits such as stigmatizing recipients, requiring burdensome form-filling and achieving less than full coverage among the entitled population). Similarly, cutting taxes on higher incomes encourages people to work to increase their income, but leaves behind those who do not do so.

'Thus the two main ways for a government to help people with low incomes – providing them with support directly and encouraging them to earn more themselves – are in head-on conflict with each other. How best to deal with this conflict has long been one of the central questions facing academic economists and economic policy makers' (p.1)

The researchers choose not to employ models which predict individuals' employment market behaviour in relation to tax and benefit changes, but instead translate 'work incentives' as the financial reward for working compared with not working and as the financial reward for working harder compared with not working harder. They find that, among the demographic groups studied, lone parents have the weakest work incentives; that from 1979 work incentives have increased on average; that from 1999 changes in tax and benefits have weakened work incentives; and in particular that since then tax and benefits changes have caused incentives to progress (i.e., to work harder) to deteriorate (- the incentive to

progress being indicated by the effective marginal tax rate which, on average, has increased by 3% since 1999).

The researchers find an ambiguous picture when they ask whether in general a trade-off has operated between increasing work incentive and reducing poverty, but they find a clearer picture when they simulate tax and benefit changes. Here they find that changes which unambiguously strengthen work incentives take more from the poor than from the rich or give more to the rich than to the poor.

The report is full of useful research results which will be of interest to anyone who wants to study in detail the ways in which tax and benefit changes affect financial incentives to enter the employment market or to progress within it: and, whilst the authors are careful to outline the additional research needed on individuals' labour market behaviour, on personal preferences, and on consensus over social goals, they are able to draw some useful policy conclusions. For instance, 'while increasing Working Tax Credit would encourage the first person in a family to work, it would discourage them from progressing further lowering [benefit and tax credit] taper rates and increasing in-work support carry a real risk of moving people above the poverty line but then leaving vast swathes of them barely above that level' (p.51). The report rightly suggests that 'if such outcomes help to meet poverty targets, that is partly a reflection of the deficiencies of headcount measures of poverty' (p.51).

The report lists a variety of policy options and particularly favours an increase in Child Benefit (pp.29-30) as this would reduce poverty in a government target group (families with children) and would not damage work incentives because Child Benefit is not withdrawn as earned income rises. A particular advantage of increasing Child Benefit is that 'benefits accrue disproportionately to the poor' (p.30).

Gaps in the report invite further (and I would say urgent) research in two areas:

It really is important to factor in individuals' labour market behaviour. Whilst the models available are not perfect, they at least give us some idea how tax and benefit changes might alter actual behaviour and therefore give us a better estimate of work incentives than simply assuming that financial incentives translate directly into work incentives.

Given the report's favourable verdict on Child Benefit as an important means of reducing poverty without damaging work incentives, and its suggestion that

people without children ought not to have their work incentives weakened (p.50), it really is important to follow this report with a study of the effects which a Citizen's Income would have both on work incentives and on the alleviation of poverty.

On the evidence of this careful report, we would have every confidence that this team of researchers could produce a further clear and reliable report which would contribute significantly to the necessary policy debate.

Richard Berthoud, *Work-rich and Work-poor*, Policy Press, 2007, viii + 55 pp, pbk, 978 1 86134 954 5, £12.95

'In 1974, 7% of adults in Britain between the ages of 20 and 59 were dependent on transfers, mostly social security benefits, from outside their immediate family. That is, they themselves were not in employment; and they did not have an employed partner either. The proportion had soared to 19% by 1993 – nearly one-fifth of the whole age group. In 2003, even after a 10-year period of economic growth and falling unemployment, the rate was still 14% - double the figure from the early 1970s' (p.1).

These facts set the agenda for the research project which has resulted in this important report. The project set out to describe and to explain the changing distribution of jobs among families. Some generally useful data on employment probabilities is clearly presented at the beginning of the report, and conclusions are drawn in relation to employment trends for individuals. The analysis then moves on to families and employment in order to understand the substantial increase in the proportion of people in non-working families. Graphs at the foot of p.35 are particularly clear representations of the upward trends in no-earner and two-earner families.

The incentive structures of the tax and benefits system are often blamed for the decline in the number of one-earner families, but Berthoud believes that a sociological explanation might be more important:

'All the signs are that the social division of employment is a dominant factor, overriding any economic calculus. There remains a strong normative expectation against female breadwinners. Once the existence of such a taboo is hypothesised, many of the conundrums surrounding no-earner families fall into place. The number of non-working husbands has increased. Women are all but forbidden to work if their

husbands have not got jobs, so the wives in these families cannot share in the general increase in employment experienced by women in other domestic situations. This means that the number of no-earner couples must increase. Such a process could entirely explain the apparent growth in within-family polarisation' (p.51).

If this is the case (and the report itself doesn't offer evidence for this explanation: an additional qualitative research project would be required), then there is surely a strong argument for providing incentives for higher employment rates amongst individuals in no-earner families *or* for part-time employment for both men and women. Labour market rigidities create a clear divide between the full-time male earner and the male non-earner: surely one of the roots of the two-earner / no-earner divide. If this *is* one of the roots of the problem then that is where the pursuit of a solution must surely begin.

Christian Albrekt Larsen, *The Institutional Logic of Welfare Attitudes*, Ashgate, 2006, 184 pp, hbk, 0 7546 4857 5, £45

It's not that public attitudes to welfare determine welfare policy; rather, welfare policy determines public attitudes. That is the evidence-based conclusion of this important book.

Following an introductory chapter, chapter 2 recognises that we now *expect* change in welfare regimes, and that public debate about the justice and appropriateness of welfare structures is an increasingly important factor in their design (- though given the *lack* of public debate about tax credits before they were introduced in the UK, a somewhat more nuanced conclusion might have been appropriate). Chapter 3 studies national surveys of values and norms in relation to different countries' welfare regimes, and finds a correlation between welfare regime and attitudes towards salary differentials between skilled and unskilled workers (a factor chosen because it is likely to tell us how people feel about redistribution of income). Chapter 4 suggests that 'the degree to which the poor and unemployed fulfil a number of so-called 'deservingness' criteria could be the missing link between welfare regimes and the cross-national differences in attitudes [towards them]' (p.45). The regime which Larsen knows best is the Scandinavian one, in which a raft of universal healthcare, educational and pension benefits means that there's little sense of there being different groups with

different deservingness levels in society – as opposed to the liberal American system of fractured provision in which ‘the poor and unemployed will be asked to fulfil much harder deservingness criteria’ (p.55).

Further chapters discuss the European context (in which discussion of the welfare state’s sustainability has complicated policy attitudes), and stigmatisation of groups selected for social assistance in less universal welfare regimes.

The author concludes that ‘the perception of the poor and unemployed [is] most negative in liberal [means-tested and selective] regimes (maybe moderated by the fact that the recipients really are in need), more positive in conservative [i.e., contributory] regimes (especially caused by the modest job opportunities), and most positive in social democratic [more universal] regimes (maybe moderated by the fact that many of the potential poor have rather good living conditions)’ (p.141).

There is good control for variables other than welfare regime (- variables such as gender, ethnicity, age, education, etc.), but more detailed discussion of the notion of causality and of the difficulty of determining the extent of it in each direction when feedback loops are present would have been welcome.

This is an important study. If it *is* the case that welfare structure determines public attitudes (even if not wholly), then it is more important to examine reform proposals objectively in the light of their likely economic, employment market and quality of life effects than it is to ask whether they will be acceptable to public opinion. The reformed structure will change public opinion in its own favour once it is in place; and if the reform removes boundaries between different groups in society then public opinion towards previously stigmatised groups will change.

David Craig, with Richard Brooks, *Plundering the Public Sector*, Constable, London, 2006, viii + 263 pp., paperback, 1 84529 374 6, £9.99

This is a carefully researched study of the British Government’s love-affair with consultants: both management consultants and information technology consultants. It shows how vast sums of public money have been wasted through inappropriate use of consultancies, poor drafting of contracts, the elimination of competition, inadequate management, and poor performance.

The copyright notice reveals that Richard Brooks of *Private Eye* wrote chapters 2, 7 and 8, and that David Craig wrote the rest, which must be one of the reasons for a certain amount of repetition. This is one of those books which could easily have been shorter than it is; but it’s still worth reading carefully, because the cumulative case against the Government is fairly devastating.

The brief account of the introduction of tax credits comes early in the book (pp.7-11):

‘One of the most noteworthy fiascos must be the system developed by EDS and now run by Capgemini for the Inland Revenue to pay tax credits to poor families. A policy that could not have been designed to be more administratively complex combined with inadequate software to produce unprecedented confusion and hardship for hundreds of thousands of the most vulnerable members of society. The policy itself, demanding repayments of tax credits in-year when claimants’ incomes increase, was a recipe for disaster for people on relatively low incomes who tend to spend their money and have trouble meeting demands for repayments out of the blue. It was never going to be helped by a useless computer system’ (pp.7f).

Whilst the Treasury, Inland Revenue and the Department for Work and Pensions get plenty of attention in the book, one management and computing system significantly unmentioned is that of Child Benefit. Presumably Child Benefit’s simplicity means that nobody ever thinks it necessary to involve consultants of any kind in its management and technology. We hope it stays that way.

Viewpoint

Critic of UBI (CI) wins Nobel prize for Economics

by Conall Boyle

Edmund Phelps, the newly created Nobel laureate in economics is clearly not a friend! As he explained (in the Boston Review in 2000) why he didn’t like UBI:

‘Philippe Van Parijs makes the strongest imaginable case for universal basic income. But I remain opposed. For me, there are two sticking points.

1. The demogrant (Phelps’s somewhat obscurantist name for UBI) device has no monopoly on the beneficial effects that make us like it, whatever the balance of its total benefits and total cost. The alternative to it – a subsidy to employers for every

low-wage worker in their full-time employ – would have some of those effects and some other benefits as well. The subsidy, in pulling up paychecks and the number employed at the low-wage end of the labor market, would mitigate serious disadvantages of talent and background; it would expand the jobs that low earners could afford to reject; and it would widen low earners' latitude in meeting their needs.

2. The other sticking point is that the demogrant idea seems in an important respect to go against the grain of the traditional American conception of a liberal republic. This conception, I will argue, would cause many Americans to hesitate to embrace a universal basic income while being willing, at least in principle, to contemplate low-wage employment subsidies.'

So that is the nub of Phelps's argument: The US public would never accept a 'money-for-nothing scroungers' charter'. And anyway, Phelps believes that subsidizing wages would work better than UBI. He had previously expounded his belief in wage-subsidy in an influential book *Rewarding Work: How to Restore Participation to Free Enterprise*. There is somebody else who believes in wage-subsidies, and has had the power to do something about it - Gordon Brown. His WFTC – working families tax credit scheme - has been developed over his ten-year tenure at the Treasury. (It has now transmogrified into CTC and WTC)

The consequences of WFTC have been spelled out in many previous issues of the CI Newsletter: the huge cost, the complex rules, the widespread blunders with over- and under-payments, the collusion between employers and workers to milk the system. Perhaps worst of all is the minefield of tax traps created for those who find that increased wages lead to sharp withdrawals of WFTC or whatever it is now called.

Phelps's view on labour market economics are summarised in a celebratory article in the Economist (Oct12, 2006): Having demolished the old Phillips curve mechanism, which says that there is a trade-off between inflation and unemployment, Phelps established that there is a 'natural rate' of unemployment for the economy. Sadly, this rate is below full employment, and unemployment – a manifest market failure to clear – will persist. A continuing level of unemployment is actually a good thing, according to Phelps, because unemployment produces cowed workers who are diligent and loyal. (No wonder Economics is known as the dismal science!)

Comment: At the heart of Phelps' adherence to the virtues of wage-subsidisation is the widely held belief of jobs-as-welfare: that a job (paid employment) is the only way citizens can validate themselves and earn honest money. Perhaps the majority of the population agree with Phelps, but it is high time that they were told: even now (2006) at the height of the subsidised jobs boom, and with enormous public make-work programmes, there are still 5m UK citizens jobless in one form or another (see references). The long-hours low-productivity jobs culture is not doing much to improve the general well-being of the population either, as the economists such as Layard studying 'happiness' have discovered. As a palliative to raise the spirits of the population job-subsidisation is a flop.

Phelps's second point, that the public won't accept a 'scroungers' charter' is valid, so long as most of the mainstream UBI advocates stick with the idea of income tax as the source of revenue to pay for it. If you believe in UBI as something which liberates us all from the tyranny of the job-system, then income tax is also obsolete. There are many other ways to raise the money, best of all resource-based taxation. Like the Alaska dividend, it collects the revenue (economic rent in economic jargon) that belongs to us all, and then distributes it equally to all the residents. UBI then becomes an *entitlement* income.

References:

The Boston Review, Oct/Nov 2000 at <http://bostonreview.net/BR25.5/contents.html>: a complete issue devoted to UBI. under the banner: 'New Democracy Forum: Delivering A Basic Income'. The lead article was by Philippe van Parijs, and replies from 15 notables included one from Phelps.

Edmund S. Phelps, *Rewarding Work: How to Restore Participation and Self-Support to Free Enterprise*, Harvard University Press, 1997

'The Nobel prize for economics: A natural choice', *The Economist*, Oct 12th 2006 Available to subscribers only

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