

# Citizen's Income *newsletter*

2008, issue 1

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### Citizen's Income Newsletter

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## Editorials

### Growing inequality

In July, the Joseph Rowntree Foundation published the results of two research projects on inequality.

In their report *Poverty, wealth and place in Britain 1968 to 2005*, Danny Dorling et al find that already wealthy areas have become disproportionately wealthier and that there is evidence of increasing polarization, with both poor and wealthy households becoming more geographically segregated from the rest of society.

In their report *Public attitudes to economic inequality* Michael Orton and Karen Rowlingson reveal substantial public disquiet about growing levels of inequality, and particular unease about the levels of higher incomes. They also find a contradiction: fewer people support redistribution than see the income and wealth gaps as too wide. This suggests that, rather than redistributing income and wealth, we need to find a different way of distributing them in the first place.

A Citizen's Income funded by a carbon tax would be such an appropriate initial distribution as the revenue would be raised from energy producers and the payment made equally to every citizen. The Citizen's Income would provide a higher proportionate net income increase for poorer households than for wealthier ones and would therefore redress both income inequality overall and, by reducing the number of poor households and increasing the number of average income households, would reduce the geographical segregation of poor and wealthy households.

The reports are available at [www.jrf.org.uk](http://www.jrf.org.uk).

### Employment incentives

Two further reports from the Joseph Rowntree Foundation noted in our *News* section reveal the weak employment incentives experienced by many families, and particularly those for taking employment of a few hours a week.

An article in this edition of the *Citizen's Income Newsletter* provides a graphic expression of the reason. The only conclusion to draw is that only by removing poor families, and particularly lone parent families, from means-tested benefits and tax credits, shall we be able to provide them with the necessary incentives.

Many such families suffer marginal withdrawal rates of 85% and above. Government consistently resists an income tax rate of 50% for high earners, reckoning that higher than 40% will impose a disincentive effect. A little consistency might not come amiss here.

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## News

The **Institute for Public Policy Research** has published its report *It's All About You: Citizen-centred welfare* (edited by Jim Bennett and Graeme Cooke, September 2007) (available at [www.ippr.org/publicationsandreports](http://www.ippr.org/publicationsandreports)).

'We propose moving towards a single income replacement benefit for people of working age. The benefit would be based on a single set of rules, paid at a standard basic rate and remain the same over time (so there would be no higher, long-term rates). It would replace Jobseeker's Allowance (JSA), Incapacity Benefit (IB) and Income Support (IS) and could also incorporate Carer's Allowance. There are a range of advantages to this proposal and they deal with some of the problems of the current benefits (and particularly the links between them). ... The problems associated with moving between benefits would disappear. There would be no risk to a person's benefit if they tried going to work because the benefit would be the same before and after a period in work. Importantly, there would be no financial gain to be made from claiming one benefit over another or from remaining in receipt of benefit for a long period.' The system would be simple to administer and easy to understand, and it would reduce stigma. The report suggests that the individual and not the household should be the benefit unit, and that a non-means-tested benefit should be paid for 12 weeks and a means-tested benefit thereafter.

The **Institute for Fiscal Studies** has published a report, *Pensioner Poverty over the Next Decade: What Role for Tax and Benefit Reform?* By simulating the future pensioner population and its known and likely sources of income, the researchers find that generally incomes of people over 65 will rise, with most of the growth coming from employment income as people remain in the labour market for longer. The report recommends that the Basic State Pension should be made universal as this would reduce pensioner poverty considerably.

The **Joseph Rowntree Foundation** has published two reports on similar themes. *Lone parents and 'mini-jobs'*, by Kate Bell, Mike Brewer and David Phillips,

finds that 2.5m people have 'mini-jobs' of less than 16 hours per week, but that the financial incentives for lone parents to work in mini-jobs are weak. The authors suggest that the amount that lone parents can earn before benefits are withdrawn should be increased. This would 'encourage almost all lone parents to do mini-jobs, and many to work in jobs with longer hours. It would particularly benefit lone parents with the weakest incentives to earn and those on the lowest incomes'. *The impact of tax credits on mothers' employment*, by Yekaterina Chzhen and Sue Middleton, finds that 'the estimated employment rates of lone parents who were receiving child tax credit were around 11 percentage points lower than those of eligible non-recipients with similar characteristics; the employment rate of mothers in couple families (i.e. with partners) who were getting child tax credit was 8 percentage points lower, on average, than that of comparable non-recipients; child tax credit decreased the probability of moving into work for women who had not been working in 2002-03 and were not in receipt of working tax credit ... ; lone parents receiving working tax credit worked around four hours fewer, on average, than comparable non-recipients'. (Quotations are taken from the summaries of the reports in the Joseph Rowntree Foundation's *Findings* series).

The 12th International Congress of the **Basic Income Earth Network** (BIEN) will be held on the 20<sup>th</sup> and 21<sup>st</sup> June 2008 in Dublin. The theme of this Congress is *Inequality and Development in a Globalised Economy - The Basic Income Option*. Plenary sessions will feature invited speakers and there will be parallel workshops with volunteered papers. Proposals for papers, workshops etc. are invited. See [www.basicincome.org](http://www.basicincome.org). Major themes include:

- Why Basic Income provides a key part of the answer to the challenges posed on issues such as inequality and development in the emerging globalised world.
- How a Basic Income system can be achieved - politically, institutionally and technically.
- The way forward if Basic Income approaches and systems are to become a reality in the foreseeable future.

All proposals should be emailed to [papers@basicincomeireland.com](mailto:papers@basicincomeireland.com).

The **Seventh Congress of the U.S. Basic Income Guarantee Network**, *What next: framing a big discussion for the next election and beyond*, will take place from the 7<sup>th</sup> to the 9<sup>th</sup> March 2008 at the Boston Park Plaza Hotel, Boston. Featured Speakers: Philippe

Van Parijs, Sean Healy, Brigid Reynolds, Yannick Vanderborght, and Senator Eduardo Suplicy. Scholars, activists and others are invited to propose papers and to organize panel discussions, and anyone interested should submit either an abstract of their paper or a panel proposal to the chair of the organizing committee, Michael A. Lewis: [mlewis@notes.cc.sunysb.edu](mailto:mlewis@notes.cc.sunysb.edu).

**The Organisation for Economic Co-operation and Development (OECD)** has published a report on its longterm research project, *Babies and Bosses: reconciling work and family life: a synthesis of findings from OECD countries* (<http://www.oecd.org>)

‘Finding a suitable work/family life balance is a challenge that all parents face. Many parents and children in OECD countries are happy with their existing work and care outcomes, while many others feel seriously constrained in one way or another. Some people would like to have (more) children, but do not see how they could match that commitment with their employment situation. Other parents are happy with the number of children in their family, but would like to work more. Yet other parents who are happy with their family situation, may wish to work at different hours, or reduce hours worked to spend more time with their children, but do not because they cannot afford to take a pay cut, or because they do not want to put their career prospects at risk. .... Financial incentives to work are important. Tax/benefit systems should be designed to give both parents strong financial incentives to work.’

**The New Policy Institute** has produced its tenth annual report of indicators of poverty and social exclusion in the United Kingdom, *Monitoring poverty and social exclusion 2007*, which provides a comprehensive analysis of trends and differences between groups. It concludes that the strategy against poverty and social exclusion pursued since the late 1990s is now largely exhausted, and that overall poverty levels in 2005/06 were the same as in 2002/03. Half of the children in poverty are still in working families, the number of children in working families where earnings and Child Benefit are insufficient for them to escape poverty goes on rising, and overall earnings inequalities are widening. (<http://www.jrf.org.uk/knowledge/findings/socialpolicy/2164.asp>)

## Conference reports

### **A report of the Centre for the Study of Social Justice conference *Towards a Basic Income Society?* At the University of Oxford, 26-27 October 2007**

On 26 and 27 October, the Centre for the Study of Social Justice at Oxford University (with support from the Department of Politics and International Relations and the Public Policy Unit at Oxford as well as the Association for Legal and Social Philosophy) held a two-day conference on basic income. The conference brought together an audience of 15 invited speakers and 60 delegates to discuss a number of issues surrounding the idea of ‘the basic income society’. The organizers of this conference, David Casassas (University of Oxford), Jurgen De Wispelaere (Trinity College Dublin) and Stuart White (University of Oxford) explicitly wanted to explore the notion of a basic income society, its likely form and limitations, and how pathways towards its achievement could be conceived. To this effect they invited a number of speakers who are sympathetic to both the strengths and limitations of basic income.

The first day of the conference comprised a round table debating the normative justification of basic income schemes from a republican perspective. So a central question was ‘How does a basic income contribute to us being free citizens?’ Building on recent work in republican political theory, David Casassas (University of Oxford), Daniel Raventós (University of Barcelona), Carole Pateman (University of Cardiff/UCLA), Stuart White (University of Oxford) and Karl Widerquist (University of Reading) discussed various aspects of republican political thought and whether this perspective can offer a robust philosophical justification for the basic income society. Casassas and Raventós outlined a strong republican case for basic income, with Pateman, White and Widerquist introducing critical remarks. Most of the contributions of the round table have been published in *Basic Income Studies*.

The second day of the conference offered a set of panels discussing the normative justification and political feasibility of the basic income society. In his introductory lecture, Tony Fitzpatrick (University of Nottingham) offered an assessment of the current state of the basic income debate a decade after the publication of his book *Freedom and Security*. Fitzpatrick identified both theoretical and practical challenges that basic income advocates must engage with when advancing the debate. (See Tony Fitzpatrick’s article on page 5 of this *Newsletter*.)

The next panel offered two papers discussing the ideal of the basic income society. Bill Jordan (University of Plymouth) challenged the strong individualist focus of much of the basic income debate, suggesting that advocates and researchers instead should be more concerned with social value (and the ways in which it can be promoted) if basic income is to deliver on its promises in terms of emancipation and freedom. José Antonio Noguera (Universitat Autònoma de Barcelona) then questioned the very idea of a basic income *society*, arguing that basic income advocates should not overstate the role and importance of these policies in current welfare arrangements. In her invited commentary, Louise Haagh engaged with both papers, offering an account of basic income from an institutional point of view.

After lunch the conference moved from the ideal of the basic income society to examining some aspects of the political feasibility of basic income schemes, and how these insights might impact on the form of the proposed basic income society. The first contribution by David Purdy (University of Manchester) posed the question whether basic income could be viable, taking into account the dynamics of basic income schemes once introduced. Purdy suggested this question must be assessed in a way that allows basic income proponents to engage with social institutions as well as existing social forces, but was adamant that, when properly analysed basic income will prove viable. In the second contribution Jurgen De Wispelaere (Trinity College Dublin) suggested that a governance perspective might offer important insights on the design of basic income schemes. He focussed much of his presentation on outlining a governance dilemma in which basic income designs trade-off effectiveness and political legitimacy, and that must be resolved before basic income can become a genuinely feasible policy. In his invited commentary, Yannick Vanderborcht (Facultés Universitaires St.Louis, Brussels) offered some critical comments on both papers. The conference ended with a round table with the main participants of the second day, giving the audience another opportunity to engage with the speakers.

David Casassas

**A report on the Foundation for Law, Justice and Society conference on Income Support.**

On Wednesday 10 October, the Foundation for Law, Justice and Society (FLJS), in association with the Centre for Socio-Legal Studies, Oxford University, hosted a Keynote Address by Amitai Etzioni on

Guaranteed Basic Income (GBI). The lecture opened the Foundation's two-day conference on 'The Contract for Income Support and Pensions in the Modern Welfare State', attended by an international panel of government officials, policymakers, academics, economists, and political scientists.

Professor Etzioni, a former Senior Advisor to the White House and President of the American Sociological Association, speaking to an audience at Rhodes House, Oxford, argued that everyone should be entitled to a guaranteed basic income 'as a reflection of our basic humanity'.

From his standpoint as founder of the Communitarian Network, he outlined his proposal for a GBI that is not means tested and not contingent on people's ability to work. Etzioni argued that we are not complete human beings when deprived of lasting, meaningful human relationships, and that we have basic obligations toward one another that GBI can help to engender. A basic income, he went on to say, would allow for a stakeholder society that would mitigate the dependence of the disempowered and foster mutual respect.

John Adams, FLJS Chairman, opened the conference the following day as part of the Foundation's programme on the Social Contract, which aims to examine the reciprocal rights and obligations between the citizens and the state in modern liberal society.

The first speaker, Professor Peter Edelman, drawing on his experience as a servant in all three branches of US government, challenged the idea that welfare causes dependency, and called for an expanded conception of the social contract from a commitment to end poverty to a determination to achieve a living income for everyone. Dalmer Hoskins, the newly appointed Chief Officer for Strategic Planning of the US Social Security Administration, corroborated this perspective of American welfare, attacking the 'myth' of the US pension policy and the US healthcare system that is 'spinning out of control'.

Various alternatives were explored, including the Swedish model for merging welfare with the social contract to produce a system of income support which verges on a basic income, albeit one that is slightly means-tested. Avia Spivak, former deputy governor of the Bank of Israel, examined the increased economic risks caused by ageing populations through case studies of Sweden and Chile, and Jef van Langendonck proposed a global welfare fund to which governments would contribute, enforced by international trade agreements.

Professors Lucy Williams and Charles Mills offered feminist and racial critiques of the precepts underlying social contract theory, arguing that it obscures the roots of poverty by 'naturalising' it, thereby ignoring the imbalance of assets and opportunity inherent in most societies. The conference concluded with an assessment of the feasibility of GBI by the sociologist Michael Opielka, and Professor Charles Murray's proposal for GBI as a replacement for the welfare state.

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## Main article

### Eight Challenges for Basic Income

By Tony Fitzpatrick

*This is a revised version of a lecture given to the 'Towards a Basic Income Society?' conference held at the Centre for the Study of Social Justice (University of Oxford) on 26/27<sup>th</sup> October 2007.*

When I was invited to address this conference, the task that I was set involved outlining the main challenges facing the Basic Income debate and the main limitations of the BI community in meeting them. I am more capable of addressing the former than the latter, as a brief autobiography will explain.

BI was the subject of my PhD (1992-95). So by the time of its eventual publication, as *Freedom & Security* in 1999, I had basically spent 6/7 years on the same subject. As I pursued other interests, my work on BI became largely confined to book reviews and article refereeing, though it continued to appear in the background or in the margins of my publications. Essentially, I really only came back to the debate in 2007. In other words, I say the following as an old friend but also as something of an outsider.

I have tried to update my knowledge of the literature I missed during those 8 years, and failed. To a large extent this failure was because I encountered a literature far wider and deeper than that which I met in the early 1990s. This makes the debate harder to summarise than was the case 10 to 15 years ago. I suspect anyone approaching the subject the way I did in my PhD would now have a far harder job.

Perhaps the biggest change between then and now lies in the global scale of the debate. I was initially sceptical when I heard that the Basic Income European Network (BIEN) had changed its name to the Basic

Income *Earth* Network; it seemed like a desperate attempt to preserve a beloved acronym. But my scepticism has since faded. So whereas in the mid-1990s the debate centred upon the UK, Netherlands, Belgium, Ireland, Canada and Brazil, today the list would be much longer.

*Challenge no. 1*, then, derives from the opportunity which this expanding interest brings. How do we disseminate information and coordinate efforts effectively about worldwide debates and developments?

It seems to me that the BI community has done an admirable job of archiving and documenting these developments. BIEN genuinely offers a resource that captures ongoing developments and literatures, either in full or at least as signposts that the eager researcher can follow.

Delving back into the debate has made it clear what *challenge no. 2* is: with BI continuing to hover at the peripheries of many policy and reform agendas (having made a clear breakthrough only in Brazil and Alaska; though there seem to be some interesting developments in Mexico) the challenge is to continue to debate ideas and design proposals without any guarantee of success. How to maintain enthusiasm when many (or most?) in government are indifferent or dismissive?; how to translate casual interest/support into something more? The difficulty here is to return again and again to some fundamental questions, in the hope that we are providing resources that future political reformers will be able to draw upon.

My revisiting of the debate, then, immediately threw up a series of familiar questions. Can an unconditional income be justified? What type of BI scheme is desirable? What type of BI scheme is most realistic? What would the impact of BI be for poverty, class inequalities, gender inequalities, labour market participation, participative citizenship, etc.? How does BI compare to other reform proposals? I won't go through all of these, but I do have a few observations.

In the early 90s I came across many people who would simply deny categorically that BI, and the unconditional principle in general, could be justified. The BI community is to be congratulated for making that kind of knee-jerk response harder to sustain. Even those who wish to reject it have to treat the principle seriously. This is perhaps because 15 years ago or more we were tapping effectively into fundamental philosophies, debates and schools of thought where discussion is always ongoing, and to some extent

irresolvable. The unconditional principle has its roots in many of these fundamental ideas and so can hardly be dismissed. It was no surprise, then, that familiar themes reappeared during my reading, including: liberty, citizenship, common good, justice, equality, efficiency, pragmatism.

What perhaps exists now is greater clarity over what, for me, is central; namely, the 'exploitation/reciprocity' arguments lurking within several of these debates. When do we exploit more? Is a BI something for nothing? Do I exploit you because your labour pays for my BI? Or, do I enable you to earn more, through your labour, by yielding up to you that part of our commonly owned resources to which I am entitled as a right? It seems to me that over the last eight years two features of the debate have been highlighted as crucial. Imagine the following vignette.

If the past inhabitants of a desert island have left us all a treasure trove of fish then the following possible scenarios pertain:

1. I decline to work and so forfeit my share;
2. You refuse to let me starve to death and so feed me out of humanity;
3. You refuse to let me starve to death and so encourage and eventually force me to work in order to avoid your being exploited;
4. I decline to work but yield my (inalienable) share to you so that, because you now possess more fish than you otherwise would, you are required to provide a BI equivalent to me in return.

Those who support conditionality often present 2 and 3 as the only alternatives, a contrast which easily gives the edge to 3 (since 2 seems merely a matter of charity). However, the most fruitful discussions have centred around the plausibility (or otherwise) of 4. And this still seems to me to be the case.

As well as addressing the reasonableness of 4, my recent work has also returned to a second key part of the unconditionality debate, namely (a) the extent to which we have control over the institutional contexts that shape our lives; (b) the extent to which we can and should have such control; (c) the meaning of 'we'; and (d) the means of effecting such control. These are obviously big questions, with many insisting that a satisfactory answer involves guaranteeing access to a labour market characterised by meaningful jobs and decent wages. For others, such reliance on labour

market participation can never be perfect, requiring some form of compensatory justice, and therefore a BI; for others, such reliance already locks people into a form of social membership which, while important, should not necessarily predominate, so a BI is justified as an extra-market income that gives people greater control over when and why they enter into relations of the wage contract. Over the last 10 to 15 years it seems to me that there has been some mutual respect and indeed rapprochement between these two perspectives (certainly in 1992 trade unions were very dismissive). But arguably more is needed.

In any event it has always seemed to me that those committed to a principle of unconditional provision know what a hard sell it is and are prepared to accept a gradual, experimental, evolutionary process of change. In short, it is not a matter of having to *resolve* this first question (can an unconditional income be justified?) before we can move on to the others I mentioned earlier. Any sportsperson will confirm that sport requires a kind of multiple vision: you need to know where the ball is now and where you want it to go.

On this business of an 'experimental, evolutionary process of change' I was interested to see the extent to which the North American experiments with Negative Income Tax (NIT), 30 to 40 years ago, were still being argued over. When I looked at the available literature 15 years ago the debate seemed to be moribund and whenever I mentioned NIT to people outside the BI debate many tended to roll their eyes or else scratch their heads trying to remember this thing from the 1960s/70s. 'Oh, yes, wasn't it proved that NIT would help create a lazy, promiscuous underclass?' For, by the 1990s, most of the left were content to ignore what looked like another form of means-testing, one associated with Milton Friedman to boot; and the right had achieved a hegemony whose appetite for large-scale reform, especially after the events of the 1980s, had diminished.

So, I think those who have wanted to revisit the lessons of the experiments are correct to assert both that computer simulations can get us only so far and that we need hard, scientific data on some of the main BI schemes. Of course, there is no guarantee that new experiments will evade the political distortions, media misunderstandings and popular misconceptions which affect the legacy of the NIT experiments. Such experiments introduce new problems and margins of error. But these are at least problems we can triangulate with simulations and other forms of

statistical data to reach a richer view of what a BI would imply for labour market participation, etc.

Persuading governments and parties of the need for such research seems to me to constitute *challenge no. 3* and, difficult as that effort is (within UK politics at least), it was nowhere on the agenda 15 or so years ago.

So this 'multiple vision' that I have just described seems to me very much in evidence still. A kind of utopian pragmatism, we might call it. In the 1990s, such utopian pragmatism seemed somehow marginal. When I moved to Edinburgh University in 1992, Thatcherism was still the dominant reference point and the opposition was split between those defending social insurance (an improved Beveridge approach) and those who were pushing for a partial reconciliation with the neoliberal revolution. The Commission for Social Justice<sup>1</sup> was not Blairism in short trousers – its prescriptions *could* have pushed us in other directions; but its language of 'investors vs. levellers' did clear a path for Blairite social democrats. In short, no one saw much of a role for a BI reform.

(I appreciate that Participation Income was given a partial thumbs-up by the CSJ, due to the efforts of Tony Atkinson and Ruth Lister; but I also recall meeting a *very* young researcher for Arthur Andersen – who had been commissioned by the CSJ to assess BI – who pretty much confirmed to me privately that BI was off the agenda.

Fifteen years later and political circumstances have changed substantially. The centre ground resembles the population of the world trying to squeeze on to the Isle of Wight. The optimist in me sees openness to change; the pessimist in me wants to beat the optimist up for being too naïve.

Before proceeding, then, this is *challenge no. 4*. How do we keep up with political changes (when the nature and implications of those changes are hotly contested by everyone) and continue to demonstrate the potential relevance of BI? Let me take UK social democracy as my exemplar.

Within the Labour Party, recent thinking on child poverty has been influenced by reports from Lisa Harker and David Freud.<sup>2</sup> Both support a greater degree of employment and employability, personalisation, outreach and flexibility in the interactions between benefit clients and providers. Both, in other words, are in tune with the welfare-to-work agenda. Harker, however, is happy to represent

hers as a 'welfarist welfare-to-work' position because she is sensitive to the need to respect the autonomy of claimants. Freud's position is more 'workfarist welfare-to-work'. He adopts a language which is very much, 'We the taxpayer proclaim these truths to be self-evident. We won't pay for these benefit-claiming malingerers any more.' He expects that most people on Incapacity Benefit can be transferred off. So whereas Harker is also willing to underline the drawbacks of a work-first approach and the damaging impact of income/wealth inequalities, the government is more comfortable with continuing to stress Freud's emphasis upon *claimants'* obligations. It is in this context that other, welcome noises about the need to simplify the benefit system need to be seen.

Take Freud's outline of a Single Working Age Benefit:

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.

The SWAB has been represented by the Citizen's Income Trust as nine-tenths of the way to a BI. In an administrative sense this *may* be correct, but the principle of conditionality is reinforced by the Freud report and so the remaining one-tenth may be insurmountable without reference to a greater range of political and moral arguments.

That doesn't mean we shouldn't welcome SWAB if something like it were implemented - far from it - but we should not lose sight of other objectives: those that look beyond employment and beyond an ethic where the social/economic inclusion of the poorest means ignoring social/economic inclusion of the wealthiest (the 'undeserving rich', in other words).

*Challenge no. 5*, then, is not only to keep up with developments in welfare/political thinking but to continue to present political ideologies, perhaps centre-left social democracy in particular, with alternatives to mainstream thinking.

For instance, some influential people within the BI debate have attempted a reformulation of welfare policies and social democracy. Post-productivism has been promoted by those such as Robert Goodin who has defined it as combining 'temporal adequacy'



(people having more available time and greater control over the use of their time) and 'minimal conditionality' (people receiving a minimum income as a citizenship right rather than as a result of state and/or market compulsion). In these terms, mainstream thinking corresponds to what I would call 'productivism'. I won't labour the idea here, but by productivism I basically mean a social culture in which economic growth is seen as *the* instrument of social change, progress, and problem-solving. In terms of contemporary social democracy, the continued emphasis is likely to be upon employment, minimum wages, wage-supplements, and welfare conditionality. Given the (modest) successes of New Labour, questioning this approach can make you seem somewhat messianic to political 'insiders'. For this kind of 'productivist' social democracy SWAB, or something resembling it, might be as far as we get to a BI, the goal here being primarily one of labour market insertion and reward for labour market effort.

My own humble efforts have defined post-productivism as that which would ensure that production more clearly and substantially serves the ecological and emotional values without which labour, productivity, growth, and therefore affluence, cannot thrive. Only that form of economic growth which demonstrably enhances emotional and ecological sources of wealth should be supported. We need to 'restock' the socio-ecological sources of affluence more urgently than most governments have admitted, scaling down our preferences to a level which our societies and ecosystems can accommodate. This means putting less reliance upon commodities and exchange-value and more upon the ways in which people can be of mutual service.

I often present myself with the thought, 'well, doesn't this emphasis on mutuality and mutual service contradict BI'? Wouldn't an unconditional income encourage people to conceive of others as givers rather than participants in social schemes of cooperation?

No doubt there are some BI systems of which this might be true but it has long been my view that the significance of BI alters markedly depending upon the social, political and economic context. To some this assertion may seem strange. If we introduced a BI of £100 per week, per person, then surely we can and should say something about its impact on household income, various groups, etc. But with any possible reform, especially something as untried as BI, we are dealing with so many variables: social relations, institutional interactions, and knock-on effects - that

we have to think of it as part of a package of measures.

Therefore, I've never been happy with the phrase 'Basic Income society'. However important, BI would only ever be one element in a complex institutional matrix of support, provision and social relations. So, my own response to challenge no. 5 is to propose that what we need is a greater hybridisation of welfare provision: the idea that wages become one of a number of ways through which people exchange value with one another.

On a more general level of principle it means rethinking, recombining, and reconciling the principles of unconditionality and conditionality. The 'something-for-nothing' society that BI is accused of wanting to 'recreate' (and can the advocates of 'active welfare' tell us exactly when that kind of society existed?) is in fact a bizarre caricature of the 'nothing-for-something' realities that the worst kind of workfare and activation programmes have produced. If we genuinely wish a 'something-for-something' society then it seems to me that an underlying layer of unconditional provision is warranted. You can't expect people to climb a ladder if you knock away the bottom rungs. The argument for BI is that it puts greater power into the hands of people themselves, as does employers paying people salaries rather than in-kind vouchers. ('Salary' is one of those words which has radically changed its meaning. It derives from the Roman practice of doling out salt to soldiers, an in-kind payment). If we are genuinely concerned about active citizenship then perhaps we ought to recreate something closer to the Roman practice for wage-earners too! Those who defend conditionality are intellectually obligated to support a more honest version than currently prevails, so that, for example, instead of obsessing about the usual suspects, we force the undeserving rich to work too. But at the moment we are stuck in no-man's-land, receiving the best neither of unconditionality nor of conditionality.

In any event *challenge no. 6* leads on from no. 5: the challenge for BI advocates is to think against what is 'common sense' or 'public opinion'. I put these in commas because we can all think of how these phrases are used to serve a particular agenda. They are constructions that we need to crack open and reconfigure if we are to speak to the politics of the future. This does not mean that 'common sense' and 'public opinion' are illusions/myths to be manipulated by the cynical, it means that they are fields of interpretative meaning and political struggle upon which different versions of common sense and public



opinion clash and compete. For the anti-BI person it is obvious that BI violates an ethic of desert; for the BI advocate it is clear that this ethic is violated all the time and that a BI is needed partly as compensation for that failure and partly to reorder the distribution of primary social resources so that genuine effort can be underpinned by income security.

Rising to challenge no. 6 therefore requires us to meet *challenge no. 7*: the need to read and respond to contemporary social changes.

To some extent this is about globalisation, a concept that was barely creeping on to the agenda in the early to mid 1990s but which has since exploded. At that time two questions cropped up: could a substantial BI be implemented given the global mobility of capital, and should a residence test be attached to BI? Both of these questions remain relevant. The first explains why some people prefer to discuss BI as a regional, and even global, proposal rather than merely a national one. What has altered is the extent to which BI is seen as a potential staging-post to a socialist society. Such analyses are less in evidence now.

It is the second question which has gained in resonance given the endless hair-wrenching panics about migration that have characterised the UK (among other west European countries) in recent years. At its crudest these are worries about welfare tourism – though the evidence for such tourism is slender. But the notion that migrants have to assimilate and integrate (in contrast to some multicultural moral/cultural relativism that supposedly dominates our thinking) has become a debate impossible to avoid.

It would be easy to characterise BI as unfair to indigenous populations. If my entitlement as a citizen of 40 years is the same as yours when you have been here 40 days, then won't that feed into paranoia about being exploited by outsiders? Does this mean there is a trade-off between BI and migration? If so, in which direction should this take us? Can BI only become economically feasible and politically credible if inward migration is restricted? Or do the benefits of migration mean that BI is a non-starter?

We could support the idea of unrestricted mobility. Perhaps there is no significant distinction between moving from Mali to London and moving from London to Birmingham. We might favour BI as that which facilitates such open migration (by reducing the costs of relocation and occupational transition, for instance) while retaining the social protections of state welfare that some feel open migration would threaten.

But if open migration remains a tough sell for the foreseeable future then an alternative is to stress (1) that access to basic welfare services is required in order for everyone to perform the tasks of social participation that we demand from one another, but (2) that properly designed social insurance facilitates solidarities, civic participation and interaction, without marking out either minority communities or recent arrivals as problem populations. A BI (along with health and education entitlements) could constitute the welfare floor from which upward steps of contributory insurance might lead.

In addition to such debates, it strikes me that the changes we have been experiencing over the last couple of decades have been deeply paradoxical. These include the following 'currents':

- autonomy *and* governance
- active citizenship *and* prohibitive paternalism
- greater mobility *and* surveillance
- information highways *and* identity scans
- market competition *and* social re-regulation
- individualism *and* legislative hyperactivity
- decentralisation *and* micro-management

What these paradoxes point to is ambivalence over the meaning and implications of choice. (Something could also be said about care in this context, but I will leave this to one side.) The marketisation of society and social risks has engendered economic and cultural fragmentation, such that contemporary social policies are characterised less by interventions intended to reduce socio-economic inequalities and more by attempts to control the exercise of choice. This is a kind of 'situational engineering' through which the possibilities of action are manipulated. The freedom to earn, consume, possess and exchange is always accompanied by a demand that we earn, consume, possess and exchange responsibly. Choice thus becomes both an impulse to be realised *and* a liberation that must be reined in if it is not to create social breakdown.

It seems to me that BI debates have to find a way of harnessing choice while disentangling it from the possessive individualism which gives rise both to free market cultures that skew the meaning of freedom and to social re-regulations that are excessively prohibitive. In simple terms this means thinking again about paternalism.

That was the aim of a recent article of mine in which I thought about how we can combine the best that stakeholder grants have to offer with those that BI has

to offer. Proponents of asset-based welfare argue that people should be entitled to a considerable stock of assets, of material resources or their equivalent. Commentators disagree over how that stock should be manifested. Some see a role for the provision of capital grants that could either be used for whatever purposes the recipient sees fit, or which could be attached to circumscribed activities (education, house buying, or business start-ups). I have argued that the distinction between BI and capital grants, while real, has been overstated. We can imagine, for instance, a system whereby BI's income stream could be converted into grant-like 'pools' of financial resources that could be used for education, etc., or which could be used to fund employment sabbaticals.

Whatever the persuasiveness of such ideas I suspect we need to continue to propose them in order to meet *challenge no. 8*, a challenge for ourselves: to plough on, encouraging, navigating and utilising the BI community's diversity. We need to continue to establish the practicality and respectability of BI, its consistency with established practices, and to argue for ways in which the mainstream needs to change. This requires us to adopt the stance I referred to earlier: one of multiple vision, of utopian realism, of radical pragmatism.

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Notes

1 *Social Justice: Strategies for National Renewal*, the report of the Commission on Social Justice (Vintage, 1994)

2 Lisa Harker, *Delivering on Child Poverty: What would it take?* (Department for Work and Pensions, 2006); David Freud, *Reducing dependency, increasing opportunity: options for the future of welfare to work* (Department for Work and Pensions, 2007)

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## Reviews

Peter A Kemp (ed.), *Housing allowances in comparative perspective*, The Policy Press, Bristol, 2007, 340pp, hardback, 1 86134 754 1, £65, and Richard Groves, Alan Murie and Christopher Watson (eds), *Housing and the new welfare state: Perspectives from East Asia and Europe*, Ashgate, Aldershot, 2007, 224pp, hardback, 0 7546 4440 8, £55.

These two books look at the various systems for subsidising rents and home ownership in different countries. Kemp looks at Europe, North America, Australia and New Zealand. Groves looks at the East

Asian 'tiger' countries with one chapter comparing these countries' systems with the UK and Europe.

Most of the chapters in each book are written by a researcher or expert from the country concerned, and both books are by their very nature highly detailed and technical. However, either book would be invaluable for somebody who needs a decent international overview.

It is very difficult to summarise either book, short of saying that the various systems are wildly different, with different underlying aims and outcomes. It is fair to say, however, that no country seems to have found the 'best' way of ensuring that even low income households have access to a reasonable standard of housing at a reasonable overall cost, despite a considerable amount of chopping and changing within most of the countries.

The reviewer is only familiar with Housing Benefit in the UK (and to a lesser extent, Germany) so it is instructive to compare the chapter in each book that looks at the UK.

Kemp look at the UK in Chapter 6. He gives a brief overview of our benefits system, repeating the government's claim that 'The tax credit for people with low earnings ... and a national minimum wage were both introduced to help make work pay'. As an aside, it is of course the position of the Citizen's Income Trust that the best way of making work pay is to reduce the marginal withdrawal rate.

Kemp traces the history of housing benefit, rent controls, and subsidies for home-ownership in the tax and welfare system from 1915 onwards. Particularly interesting is his point that 'the means tested [non-contributory] assistance scheme was more generous than the [contributory] insurance scheme. National Insurance recipients with high rent were able to top up their incomes by applying for National Assistance to cover the difference'. Also telling is 'The way in which Housing Benefit is calculated is relatively simple. Tenants whose income is more than the social assistance benefit rates are entitled to a Housing Benefit payments that is equal to their eligible rent minus 65% of the difference between their net income and the social assistance benefit rates'. Kemp does not mention until later on that the eligibility criteria for and way in which Council Tax Benefit is calculated are very similar, and that this is withdrawn at a further 20% of a claimants income above the same basic benefit levels.

Kemp points out that 'Housing Benefit ... is also an important contributor to their landlords' rental income stream ... cuts in Housing Benefit will consequently have an adverse impact, not only on direct recipients but also indirectly on their landlords ... For this reason, landlords and the banks that lend mortgages to them have been very wary or critical of proposals to cut or reform Housing Benefit.'

Kemp also goes into some detail on the new scheme of a Local Housing Allowance for private tenants and the first evaluations of pilot areas, concluding that 'the evidence so far suggests that the LHA represents an important, but not particularly marked, improvement on the previous Housing Benefit scheme for private tenants'.

Groves takes a briefer and more general look at 'Housing in the British welfare state' in Chapter 8.

Groves takes a wider view than Kemp and also looks at the way in which successive governments have reduced the generosity of old age pensions and encouraged older people to finance their retirement by equity release schemes, which he says quite rightly is relying on the 'lottery of the market'. He also explains Thatcher's 'Right to buy' and the current government's ideas on asset-based welfare. ('Right to buy' is now known as 'Choice to own').

Groves looks at state support for housing in Singapore, Hong Kong, South Korea, Japan, China and Taiwan. The main emphasis in these countries seem to be encouraging home ownership, via compulsory savings schemes and subsidies rather than subsidising poorer tenants.

Of the two books, Kemp provides the far better overview in Chapter 1. Groves' first chapter seems to consist largely of a summary of other research into housing and welfare, using expressions such as 'decommodification' and 'corporatist or egalitarian redistributive models', 'welfare states emerge as a result of universal physiological forces, technological determinism or as a consequence of industrialisation'. Kemp, on the other hand, takes much greater pains to put 'Housing allowance in context'.

In summary, both books are lovingly researched and meticulously presented, each chapter is a goldmine of information into the various systems, their costs, advantages and pitfalls, however neither book comes to a conclusion as to what the best system might be. Readers of either book will still have to make up their own minds!

Mark Wadsworth

John Creedy and Cath Sleeman, *The Distributional Effects of Indirect Taxes: Models and applications from New Zealand*, Edward Elgar, Cheltenham, 2006, xiii + 261 pp., hardback, 1 84720 042 7, £65.

The New Zealand Goods and Services Tax (GST) has no exemptions and is imposed at a single rate; but there are also excise taxes on alcohol, tobacco and petrol, and these have created rebate debate.

This book assumes that households will consume less of goods when tax on them increases. This means that a tax on a commodity will potentially distort a consumer's expenditure pattern, thus creating a marginal cost, an inefficiency for that consumer, and an economic burden greater than the tax paid.

The authors recognize that taxation is not simply a way of raising revenue for the Government and that other social policy factors are relevant, such as the environmental impact of carbon tax (a tax on carbon dioxide emissions), and in this area the authors find that an increase in carbon tax causes only a small effect on family after-tax income, an ambiguous distribution pattern, and no large distributional effects. The marginal welfare cost is low, and thus the tax is relatively efficient. On taking a variety of factors into account (such as the relative fuel use efficiency of different industries), the authors conclude that reductions in carbon dioxide emissions are possible without too much distributional effect and without costing too much.

This book is impressive in the care taken to take account of as many factors as possible and in the detail offered to the reader. Conclusions are carefully drawn, and what frequently emerges is a rather complex picture. For instance, the welfare effects of a petrol excise tax increase are

'found to vary considerably among demographic groups, reflecting the different variations in budget shares with total expenditure' (p.65).

In general

'overall measures of social welfare over all households, allowing for the combined effect of equity and efficiency, were found to increase by only one half of one per cent when all excises are removed. The results therefore offer little support for the view that excises are highly regressive and inefficient. Any policy decision in this context must of course also

combine these findings with perceived or measured effects of excises on the environment and health levels' (p.189).

Also impressive is the care taken over the different parts of the analytical method. For instance, much care is taken over the relative advantages of different equivalence scales (which count a two-adult household as less than two adults in terms of the welfare benefits of a given net household income); and over inequality aversion (because for both individuals and households equality is a differentially valued good).

Whilst some of the authors' assumptions could be challenged (such as those relating to expenditure preferences), this is a serious attempt to evaluate actual and possible policy changes whilst taking into account a wide variety of factors.

A similar approach needs to be taken in the field of income taxation in relation to changes in employment patterns consequent upon changes in the structure of the taxation system or in tax levels. Just as we ought not to ignore expenditure pattern changes when indirect taxes change, so we should not ignore labour market changes when income taxes (and tax credits and welfare benefits) change.

This book offers an example to follow.

Caroline Glendinning and Peter A. Kemp, *Cash and Care: Policy challenges in the welfare state*, Policy Press, 2006, xii + 322 pp, pbk, 1 86134 856 8, £22.99.

The distinction between cash benefits and care has begun to break down as people with disabilities are now being given cash to enable them to pay for personal assistants. Similarly, parents are now being more firmly encouraged to enter or remain in the labour market, and after-school and breakfast clubs and government subsidies for childcare are becoming a normal part of a child's life. In a parallel development, residential care is becoming a more normal option for elderly family members as family members remain in the labour market rather than give up their jobs to look after elderly parents.

The chapters of this book started life as conference papers, and in a short review it is impossible to discuss in depth the content of all nineteen of them; but of particular interest to readers of this *Newsletter* will be Jane Lewis's summary of changes in the family, the labour market and the welfare state (pp.12ff), Jan Pahl's discussion concerning to whom benefits should

be paid (pp.58ff), Pernille Hohnen's chapter on individualisation and marketisation as policy trends (pp.79ff), Hilary Arksey and Peter Kemp on carers and employment in a work-focused welfare state (pp.111ff), Caroline Glendinning on different ways of paying carers (pp.127ff), Jane Millar on work and welfare for lone mothers (which identifies lack of income security during the transition from benefits to employment as a problem) (pp.171ff), and Jenny Morris on the funding of independent living for people with disabilities (pp.235ff).

The overwhelming impression given by the papers is of rapid change: in the ways in which we as a society organise care for vulnerable groups, in employment patterns, in our expectations of parents, and in parents' expectations of themselves. What is required is income security in the midst of all this change. Whilst tax credits looked like an answer, they have in fact become part of the problem (pp.177ff). Child Benefit, however, gets a good press (pp.59, 177), particularly in relation to its role in contributing to income security for women.

Hans-Werner Sinn et al, *Redesigning the Welfare State: Germany's Current Agenda for an Activating Social Assistance*, Edward Elgar, Cheltenham, 2006, xi + 204 pp., hardback, 1 84720 077 X, £55.

This careful and detailed study of the German welfare state from the Ifo Institute for Economic Research in Munich correctly locates the current European welfare state crisis as a symptom of a globalization which, by bringing workers from elsewhere to compete with Europe's low-skill workers, and by moving manufacturing industry to countries with lower wages, increases unemployment amongst low-skill workers in developed countries and puts pressure on welfare budgets.

This book charts the growth of unemployment amongst low-wage, low-skill workers in Germany, and describes the current German benefits systems as

'providing a [fairly high] general minimum level of income that strongly discourages benefit recipients from taking up work .... Welfare recipients are therefore condemned to remain inactive, and it is virtually impossible for them to free themselves based on their own capabilities and resources. This is completely at odds with the philosophy of a market economy' (p.4).

The authors propose a system related to 'income potential and a willingness to earn income' (p.4) composed of a 'wage tax credit'. This, they say, coheres with a policy which seeks redistribution and also leaves 'the willingness of citizens to work affected as little as possible' (p.39). The inspiration for the tax credit proposal is current US, UK and French policy (pp.48ff).

Germany's current reforms are evaluated in relation to the Institute's proposal, and the comparison reveals that marginal deduction rates would be generally lower with the Ifo scheme, though still high at 80% for a variety of family types and across a broad range of incomes. Such continuing high marginal withdrawal rates should surely be a concern, as should be the complex administrative systems relating to tax credit schemes. The authors really ought to have paid some attention to UK experience of administrative errors and low take-up of tax credits.

Tax credits don't, of course, enable a welfare system to escape from the problems of means-tested benefits. Tax credits are themselves means-tested. They might increase take-home pay for the lowest earners, but, because they are withdrawn as earned income rises, they push the problem further up the incomes spectrum by imposing a plateau so that, in the British system, many family types must earn £20,000 p.a. or more before they can escape high withdrawal rates.

UK Child Tax Credits get a section of the text to themselves (pp.54ff), but Child Benefit does not. This is a pity, for anyone wanting to reduce both means-testing and the difficulties many families face if workers take low-paid jobs, really ought to be studying the UK's Child Benefit, as the graph on p.57 shows.

A reform of Germany's welfare state, or of any other welfare state, undertaken by providing a non-means-tested income floor, would increase the system's efficiency and would reduce poverty. Such a reform would cohere with precisely the kind of social policy which the authors of this book want to see evolve. We very much hope to see another book exploring *this* possible reform of Germany's welfare state.

Tim Robinson, *Work, Leisure and the Environment*, Edward Elgar, 2006, x + 136 pp, hbk, 1 84720 103 4, £39.95.

The preface sums up the argument of this campaigning book:

This book is about a fundamental flaw in contemporary market economies that causes

individuals to voluntarily work and consume too much while enjoying too little leisure. In working and consuming too much they are placing unreasonable and unsustainable demands on the environment. Furthermore, as the arguments in this book explain, unless the fundamental flaw is acknowledged and acted upon, humankind faces ever increasing environmental disamenity. This is because the characteristics of the fundamental flaw mean that the current problems of overwork and consequent environmental degradation reinforce each other leading us further and further away from the optimum. Over time, the extent to which work is excessive in relation to leisure grows continually along with the extent of environmental degradation. This is the outcome of the vicious circle of overwork and over consumption (p.ix).

The first chapter argues for an economic approach to this problem on the basis of a correlation between high levels of output per capita and high levels of environmental degradation per capita. The second chapter suggests that decreased unpleasantness of work, increased incomes, declining quality of life (leading to the pursuit of higher incomes in an attempt to rectify this for the individual) and the transfer of work effort from years of low productivity to years of high productivity have caused an increase in work hours. And the third chapter suggests that another important and often neglected factor is that to shift work from the home to the workplace increases externalities such as pollution and carbon emissions and thus shifts negative externalities from the home to the public realm. If we translate externalities of both work effort and increased consumption into an unhappiness alongside the happiness we receive from the income earned at work and the unhappiness derived from the disbenefits of work, then net happiness reaches zero at fewer work hours per week than if we ignore such externality unhappiness. Ignoring this externality unhappiness is the 'fundamental flaw' in the free market economic model which Robinson thinks we need to do something about by taking this externality into account and working fewer hours to ameliorate it and its attendant unhappiness.

Chapter 4 adds consideration of a limited information market failure to that of externalities. Chapter 5 offers a measurement of the excessive work effort we experience using a General Progress Indicator rather than Gross Domestic Product to measure wellbeing.

Chapter 6 studies cumulative effects and international differences; and chapter 7 offers policies to tackle the fundamental flaw: working hours legislation, education, and taxation. The aim: to reduce work hours and thus *improve* quality of life.

The problem, which Robinson recognises, is that the fundamental flaw and its solution are not intuitive until they are explained and the penny drops.

The same is true, of course, for current problems relating to income maintenance and a Citizen's Income as their solution.

Neri Salvadori and Carlo Panico (eds), *Classical, Neoclassical and Keynesian Views on Growth and Distribution*, Edward Elgar, Cheltenham, 2006, xxii+318pp, hardback, 1 84542 309 7, £69.95

The accumulation of capital is the only true engine of economic growth, for it 'leads to an improvement in the productive capacity of labour' (Adam Smith, quoted in Renato Balducci's chapter, p.3).

Beginning with Ricardo and Smith, the authors of these thorough and mathematically expressed chapters chart the history of economists' understandings of growth (understood here as growth of national product measured in financial terms) and distribution (again, understood in financial terms). So we travel via Smith (ch.1) and Ricardo (chs. 1, 2 and 3) to Marx (ch.4) to the neoclassical (chs. 5 to 8) and Keynesian (chs. 9 to 13) economists of the latter half of the twentieth century, though the fact that Keynesian and neoclassical effects can be found together (cf. p.184) suggests that not too much notice should be taken of the attempt to divide chapters into different schools of thought. Of particular interest is evidence of more nuanced models among neoclassical and Keynesian theorists. For instance, in chapter 6, Mario Pomini concludes that political and social mechanisms condition accumulation and growth and that 'the debate has reopened on the most appropriate economic policy measure for stimulating and sustaining economic growth, a much richer and more complex process than traditional [neoclassical] theory was prepared to admit, in which the public operator can perform a key role' (p.143); and in chapter 12 Antonio Agata shows that within post-Keynesian theory 'the economy can be stuck in an underemployment or overemployment steady state and that there is no automatic mechanism driving the economy toward a

steady state with full employment, even if nominal prices and real wages are perfectly flexible' (p.281).

Such loosening of theoretical boundaries in the context of a complex ideological, fiscal and financial world should encourage welfare economists of all persuasions to loosen their own boundaries, to ask about detail and practicality, and to seek usable theory wherever it might be found.

While this book is designed for readers comfortable with mathematical expression of economic theory, its conclusions will be of interest to anyone interested in economic growth and distribution.

## Research note

### The utility - or otherwise - of being employed for a few hours a week

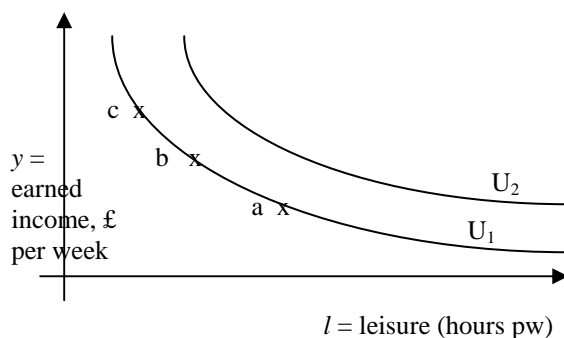
by Malcolm Torry

This short article employs the concepts of 'utility' or 'indifference' curves to evaluate a change from the current tax and benefits system to a Citizen's Income for likely effects on employment incentives.

#### Utility curves

Hours not spent in paid employment ('leisure') are useful to us (they have utility), and consumer goods, and thus earned income, also have utility. Each combination of leisure and earned income will yield utility, or satisfaction, which can be pictured as a series of curves on a graph:

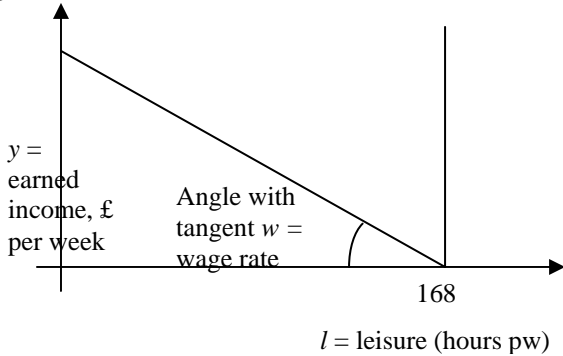
Figure 1



If, at the three combinations of leisure and earned income at a, b, and c, we regard ourselves as having equal levels of utility, then we can draw the 'indifference curve'  $U_1$  along which our utility is constant. The curve at  $U_2$  represents a similar series of points of equal utility, all at a higher level of utility than those on  $U_1$ .

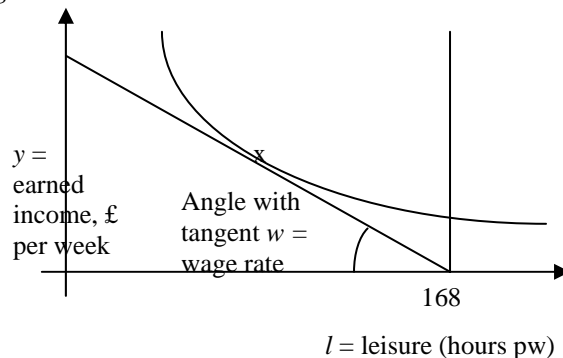
For a given wage rate  $w$ , we can draw a line (a 'budget constraint') showing what our earned income will be for each hour worked, i.e., for each hour subtracted from our leisure.

Figure 2



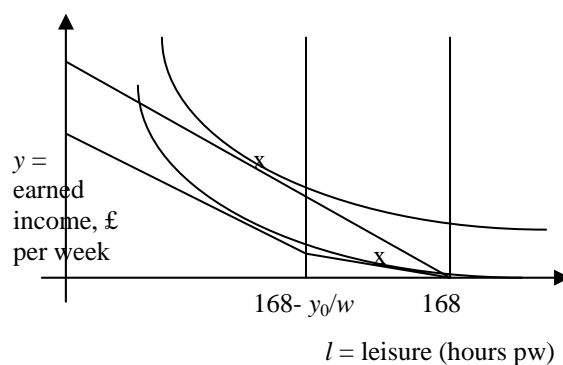
The combinations of earned income and leisure represented by points to the right of the budget line are unobtainable, so our utility will be maximized where a utility curve is at a tangent to the budget constraint (as this is the highest utility available to us under the circumstances):

Figure 3



Now suppose that on all earnings up to the amount  $y_0$  tax is charged at rate  $t$ , then the wage rate net of tax will be  $w(1-t)$  per hour between for the first  $y_0/w$  hours of employment per week (i.e., between  $(168 - y_0/w)$  and 168 hours of leisure):

Figure 4



The person whose utility was previously maximized at a high number of hours of employment (a low number of hours of leisure) now has utility maximized at a lower number of hours of employment (a high number of hours of leisure, and possibly at 0 hours of employment). This is true for workers on low wages, but the reverse can be true for those on high wages, leading to a phenomenon known as the 'the backward-bending supply curve of labour'.

We are in the fortunate position in the UK of the Department for Work and Pensions having calculated budget constraints for different types of family in its Tax Benefit Model Tables

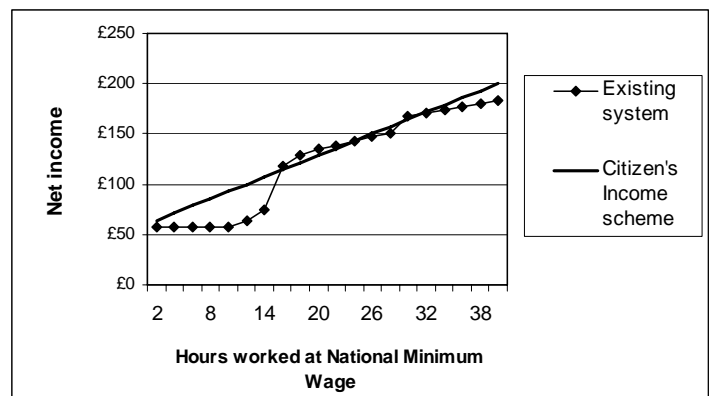
[http://www.dwp.gov.uk/asd/asd1/TBMT\\_2007.pdf](http://www.dwp.gov.uk/asd/asd1/TBMT_2007.pdf)

If we translate the income levels used in the tables into hours employed at the National Minimum Wage then we can create graphs showing net income against hours employed – so now the horizontal axis is reversed and labelled 'hours worked per week', and the budget constraint has a positive slope rather than the negative slope generated by a horizontal axis showing leisure hours (see figure 5). Notional utility curves can now be drawn – again, reversed (see figure 6):

*The existing tax and benefits system*

Putting housing-related benefits to one side, in 2006 the net income of a single earner aged 25 or over after income tax, national insurance contributions, income support/jobseeker's allowance and working tax credits was as shown by the line marked 'existing system'.

Figure 5

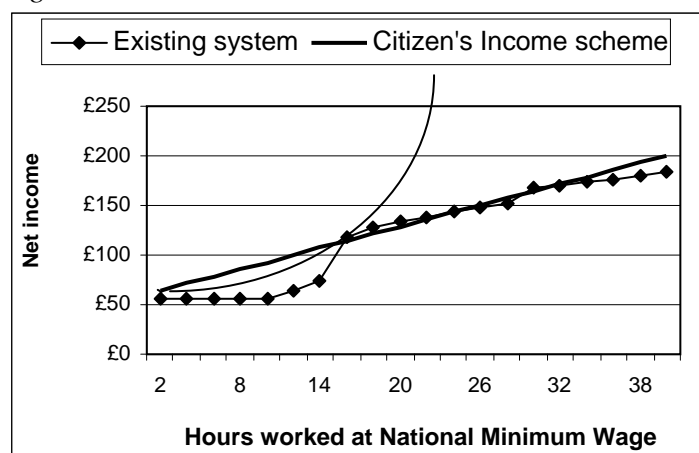


The chart clearly reveals a poverty trap, particularly if the person is employed for only a few hours a week. Between 0 hours and 12 hours per week earnings make almost no difference to net income. If someone has a general preference for leisure rather than for income then, as figure 6 shows, utility could be maximized at either or both 0 hours of employment and at 16 hours of employment, and isn't much less at any number of



hours between 0 and 16 hours. Thus a poverty trap creates a considerable disincentive to increase the number of hours worked.

Figure 6



A Citizen's Income

The graph line marked 'Citizen's Income scheme' in figure 5 shows the effect of the following Citizen's Income:

Figure 7

Age	Weekly CI	2006-07 rates:
0 to 18	£34	Income Support for 16-17 year olds
19 to 24	£45	Income Support for 18-24 year olds
25 to 64	£57	Income Support for 25-59 year olds
65 and over	£114	Pensions Credit rate

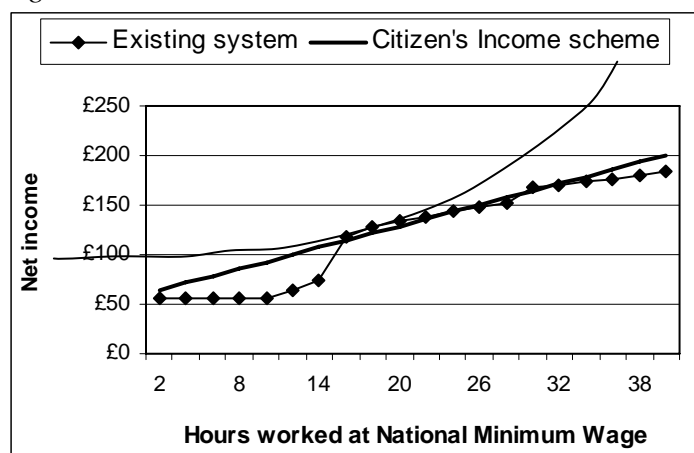
(This scheme assumes a flat rate of tax on earned income of 33% (22% income tax plus 11% employee's national insurance contributions), with a higher rate as at present on higher earnings. For further details of the scheme see *Citizen's Income: a brief introduction*, Citizen's Income Trust, 2007).

With a Citizen's Income, the person employed for only a few hours a week experiences increasing net income as the number of hours worked increases. This suggests that there will be an incentive first of all to accept employment of a few hours per week and also to seek to increase the number of hours of employment: unlike under the present scheme where employment for a few hours a week is unlikely to be attractive, and only increasing hours of employment to

more than 16 hours per week will make much difference to net income.

As figure 8 shows, whatever the shape of someone's utility curve, they will be able to find an employment level which will match their preference; and someone with a higher preference for leisure will be able to work for a few hours per week at a higher utility than if they were working 0 hours – something impossible under the existing system.

Figure 8



Only the Citizen's Income net income line allows people with any shape of utility curve to experience incentives to seek employment of any given number of hours.

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