Citizen's Income *newsletter*

2008, issue 2

Contents

Citizen's Income Newsletter
ISSN 1464-7354

Citizen's Income Trust
P.O. Box 26586
London SE3 7WY

Tel: +44 (0) 20 8305 1222
Fax: +44 (0) 20 8305 1802
Email: info@citizensincome.org
Website: www.citizensincome.org

Registered charity no. 328198

Director: Malcolm Torry

A new leaflet for students

Fifteen years ago the Citizen's Income Trust published a very popular leaflet for students. Several generations of students have passed since then and we thought that it really was time that we repeated the exercise.

On one side of the new A3 poster-type leaflet is a history of tax and benefits in the UK, and on the other an introduction to a Citizen's Income.

If you are a student of social policy, economics, or related topics, or a lecturer teaching such subjects, then please let us know how many leaflets you require. (Please order two for each student)

Editorial

Employment incentives

The editorial in our last edition referred to research by the Joseph Rowntree Foundation into employment disincentives suffered by many families, and particularly by those seeking employment of a few hours a week.

An article published recently by the Institute for Fiscal Studies [1] reports on a study of the different tax and benefits systems of Germany and Austria and on the different employment patterns found among mothers with young children in the two countries. The researchers write: 'Based on our empirical results, we … conclude that part of the differences in employment patterns can … be explained by the different work incentives created by the tax-benefit system. ….'. [2]

It is a pleasure to find the Chancellor of the Exchequer taking on board the message that high marginal deduction rates damage work incentives. In his recent budget report he suggests that 'the poverty trap occurs when those in work have limited incentives to move up the earnings ladder because it may leave them little better off. Marginal deduction rates (MDRs) measure the extent of the poverty trap by showing how much of each additional pound of gross earnings is lost through higher taxes and withdrawn benefits or tax credits. ….'. [3] Quite so.

It is an even greater pleasure to find Mr Darling doing something about the situation. The two relevant lines in the budget report are these:

> 'increasing the first child rate of Child Benefit to £20 a week from April 2009, reinforcing the Government's commitment to Child Benefit as the foundation of financial support for all families; …
>
> disregarding Child Benefit in calculating income for Housing and Council Tax Benefit from October 2009, improving work incentives for many of the lowest-paid families and boosting their incomes.' [4]

Child Benefit is important because it isn't withdrawn as other income rises. Until now, though, Child Benefit has been effectively withdrawn by taking it into account in the calculation of other benefits. Ceasing to take it into account when Housing Benefit and Council Tax Benefit are calculated will reduce the marginal deduction rates for many low-earning families and, as the Chancellor correctly predicts, have a big impact on child poverty: both because the change will increase net incomes *and* because it will create greater incentives to increase earned income.

The extension of the virtues of Child Benefit to adults in the form of a Citizen's Income would have equally virtuous effects.

1 Helene Dearing, Helmut Hofer, Christine Lietz, Rudolf Winter-Ebmer and Katharina Wrohlich, 'Why are mothers working longer hours in Austria than in Germany? A comparative microsimulation analysis', *Fiscal Studies*, vol.28, no.4, pp.463-495

2 p.488

3 Budget Report 2008, paragraph 4.15.

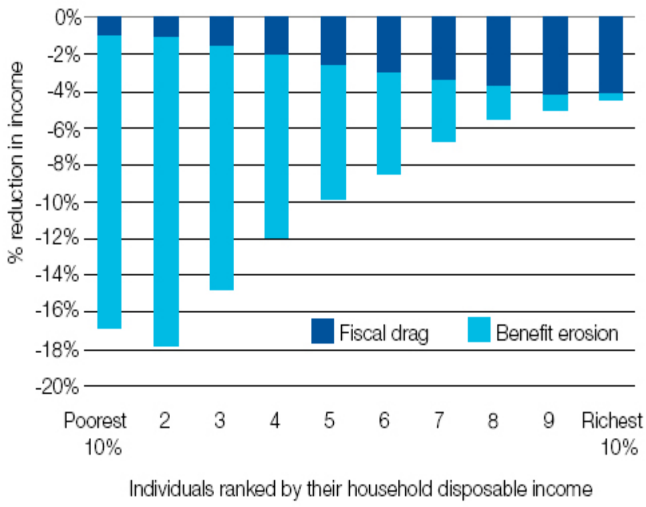
4 Budget Report 2008, paragraph 4.17

News

In April **the Joseph Rowntree Foundation published 'The impact of benefit and tax uprating on incomes and poverty'** in its *Findings* series. The researchers conclude that: 'Uprating policies have big effects over time. For example, it will be virtually impossible for the government to end child poverty if payments for families with children rise more slowly than average household incomes. Over 20 years, the consequences of current uprating policies, other things being equal, would be to:

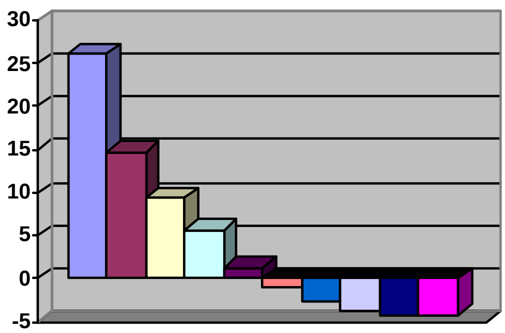
- Almost double the rate of child poverty, from 18% to 33%. However, it will have little effect on pensioner poverty because pensioner benefits will be largely earnings-linked from 2012
- Reduce the value of benefits and tax credits, relative to earned incomes (benefit erosion)
- Increase the percentage of incomes taken in tax revenues, by raising tax thresholds more slowly than earnings (fiscal drag)
- As a result, improve the public finances by an amount equivalent to 3.6% of national income (£47 billion at today's levels)
- Reduce disposable incomes (relative to earnings), but far more for the poor than for the rich. The poorest households would lose on average 17% of disposable income; the richest households 5%.'

The researchers' graph reveals the extent of redistribution from the poor to the rich:



For comparison, the following graph shows the redistribution which would occur if a £25 Citizen's Income were to be paid for by reducing tax allowances and means-tested benefits. The poorest 10% would see a 25% increase in net income, and the wealthiest 10% a 5% fall. We leave it to our readers to draw their own conclusions about the best way to go about reducing child poverty.

Average gain/loss % by income decile



In January the **Institute for Fiscal Studies** published its 'Green Budget', which examines the options available to the Chancellor of the Exchequer as he approaches his budget announcement. The report says that 'the tax and benefit reforms since 1997 will have increased the incomes of the poorest tenth of the population by 12.4% (£1,300 a year) and reduced those at the top by 5.5% (£4,200 a year)', but that those changes to be implemented this April 'will not reduce the very high marginal tax or deduction rates faced by those with the weakest work incentives' (p.268). On simplification: 'The government has reaffirmed its commitment to simplify the tax system, but attempts by this and previous governments to deliver real and long-lasting reductions in complexity have usually come to nothing and the volume of tax legislation has grown inexorably. The rewrite of direct tax legislation, initiated under the last Conservative government and still in progress, uses simpler language but at much greater length and without resolving any of the underlying complexity in the legislation. … Real simplification is difficult to achieve without more fundamental consideration of what, who and how we tax. Tackling complexity requires that we recognize what is complex and why, and focus on what can sensibly be done about it,' (p.260).

At the first **World Social Security Forum** held in Moscow from the 10th to the 15th September 2007, Michael Cichon, the Director of the International Labour Office's Social Security Department, made an appeal for immediate action to reduce global insecurity and poverty. Presenting supportive evidence from Europe, he underlined that social security has helped reduce poverty levels by around 50 per cent. This same result should be possible for all countries, he insisted. And it was affordable. What was lacking, however, was political will. To make his case, Mr Cichon set about debunking three myths: that poorer countries cannot afford social security, that social security expenditure acts to undermine economic growth, and that the benefits of national economic growth are automatically shared by all. As a response, Mr Cichon argued that a basic package of universal social security benefits should be possible for all countries. This would cost no more than 5 per cent of national GDP, he emphasised.

The **Institute for Public Policy Research** has published a report entitled *Working out of Poverty*, http://www.ippr.org/publicationsandreports/publication.asp?id=581. The report identifies a low National Minimum Wage and the disincentive effects of in-work benefits as two of the reasons for there being so many working families who remain poor. The authors make recommendations in relation to the National Minimum Wage, and they also suggest changes to Tax Credits: 'We recommend the introduction of a Personal Tax Credit Allowance (PTCA). A PTCA would give all individuals in eligible families their own personal allowance – allowing them each to earn up to £99.84 a week (or £5,210 a year) before their families' Working Tax Credit entitlement started to be withdrawn. For a dual-earner family this would mean a combined allowance of almost £200 a week. ….. Where families responded to this improved incentive, and a second adult moved into work, it would bring savings to the state in virtually all cases' (p.50).

The **European Centre for Social Policy and Research** in Vienna has published an assessment of the UK's tax credit system: Tax Credit Policy in the UK and its lessons for Austria: http://www.euro.centre.org/detail.php?xml_id=1109. The report concludes: 'Taking the long-term view, the problems encountered in the tax credit policy in the UK were worth the pain. Despite all its flaws, tax credit policy has played an important role in the outcome that, during the last decade, 600,000 children have been lifted out of poverty (compared to the doubling of child poverty that occurred over the previous 20 years). The question is whether it was necessary to use a system with an almost 15% inaccuracy rate to achieve this. Perhaps not. If Austria were to introduce such a policy, it has to measure how such wastage could be avoided or kept to a minimum. The conclusions with respect to work incentives of the British schemes are mixed. There is definitely a strong incentive for single parents to return to work. One particular area of weakness is the work incentives for a 'second' earner in the family: the eligibility conditions for a couple are the same as for a single person (even though the poverty line is 30 per cent higher for couples). There are also weaknesses in providing incentives to increase working hours beyond what ensures entitlement, and this is mainly because of the fact that other benefits (particularly Housing Benefits) are withdrawn rather quickly once income from work starts to rise. …… The main challenge to the WTC [Working Tax Credit] in the United Kingdom has been its administrative difficulties towards responsiveness to income changes.'

The **Pensions Policy Institute** has published a report, *Maintaining consensus: long-term goals for the UK pensions system and options for ongoing policy review*: http://www.pensionspolicyinstitute.org.uk/news.asp?p=294&s=2&a=0. It concludes that the UK's pensions system should be:

- **Adaptable**: a system that adapts to changes in the social and economic context and fits with societal values, which may change over time.
- **Adequate:** a system that ensures an adequate income for all, in terms of preventing poverty, meeting individuals' expectations and minimising income shocks.

- **Affordable**: a system that is financially viable for the state in the short term and in the long term.
- **Clear**: a system from which people can understand what they can expect to receive when they retire, and what actions they need to take themselves.
- **Fair**: a system that is fair between groups, across generations and strikes an appropriate balance of responsibility between individuals, employers and the state.
- **Robust**: a system that can withstand, and respond appropriately to, economic shocks and political changes.
- **Trusted and builds confidence**: a system that builds trust and confidence among the public and other stakeholders.

The **Joseph Rowntree Foundation** has published *Monitoring poverty and social exclusion 2007* by Guy Palmer, Tom MacInnes and Peter Kenway. The report concludes that 'the period of slow but steady progress in reducing poverty has now come to an end, arguably around three or four years ago. In particular, overall poverty levels in 2005/06 were the same as they were in 2002/03. Child poverty in 2005/06 was still 500,000 higher than the target set for 2004/05. In addition, the unemployment rate among the under 25s has been rising since 2004 while the rate for those 25 and over stopped falling in 2005. The proportion of working-age people who are economically inactive but want work (a group not classified as 'unemployed', a majority of whom are disabled) also appears to have stopped falling. Tax credits are taking greater numbers of children out of poverty – around a million in each of the last three years – but the number of children in working families whose earnings and Child Benefit are insufficient by themselves to escape poverty is also rising. Half the children in poverty belong to working families. And while inequality in the lower half of the pay distribution is narrowing, and women are catching up with men (but are still well behind), pay inequality in the upper half of the pay distribution is growing. Overall earnings inequalities are widening and the beliefs that sustain them remain unchallenged. …. As the value of social security benefits for working-age adults without dependent children continues to fall ever further behind earnings, the ten-year-old question of 'what security for those who can't (work)' remains unanswered' (pp.9-10)

Parliamentary report

From Hansard for the 5th December 2007: the Parliamentary debate on the House of Commons Work and Pensions Committee's report *Benefits Simplification*

(Column 903) *Mr. Rooney* [MP for Bradford North]: We put forward two additional recommendations for consideration. One is the concept mentioned by Fraud - sorry, Freud; a Freudian slip - of a single working-age benefit. There is an air of utopia about that - the hon. Member for Weston-super-Mare (John Penrose) will probably say a lot about it. But there is potential, and the embryo of an idea, which might give us the simplicity that we want. There are all sorts of problems with introducing it - there will be arguments about winners and losers and so on - but it is an idea.

As to the other recommendation for consideration, we reflected on the success - first in analysis, then in presentation of solutions and then in public acceptance - of the Turner commission on pensions, and suggested that perhaps it was time for a welfare commission. Beveridge assessed what sort of society we would have post-war, and what sort of social security system we wanted for that society. There has been no real consideration of the fundamentals since 1945 - it is 60-odd years since Beveridge published his report. There are serious grounds for going back to basic principles, and saying, 'This is the society, labour market and mobility - or lack of it - that we have. What sort of benefit system do we need that allows that society to function but that also removes all barriers and disincentives to people to work?'

We are firmly of the view - I evangelise about this - that this country has enough people with sufficient credibility, academic rigour and intelligence to staff a commission such as the Turner commission. They could take two, three or four years - I am not bothered - but they would present for public debate and to Parliament a possible model for where we will be in 10, 15 or 20 years' time.

I repeat: this Department affects about 25 million people and has a £120 billion budget, which represents the largest slice of Government expenditure. We are duty bound to try to simplify it as much as possible.

(Column 916) *John Penrose* [MP for Westcon-Super-Mare]… we also need to bear in mind that making things tidier is not just an academic exercise; there are also serious and vital advantages to having a simplified benefits system, and it is worth reminding ourselves about them because they are the prize at which this debate is aiming. They are simple, and there are far fewer of them than the causes of complexity—there are three or four at most.

First, we can reduce error. We can do that on behalf of staff. They need a PhD to understand most of what is going on in the system at the moment; it is therefore understandable that mistakes are made—and that is before we move on to the problems caused by computer systems, ... The complexity is also a problem for claimants, because as we have just heard, they cannot be expected to understand the entire system. They are even less likely to understand it than the people who work as benefits experts within the system. Inevitably, claimants will make mistakes. That makes life hard for them and potentially exposes them to accusations of fraud even if they make a mistake in good faith.

The second advantage to simplification is that we can improve take-up. It is striking that child benefit, one of the simplest benefits, has one of the highest levels of take-up of any of them. It is one of the most successful, and the impact on poverty and on reaching the Government's stated objectives for the benefits system would be profound if we could improve the take-up of other benefits in the same way. That might cost more, but I understand that the Government have reserves in their financial estimates. …..

(Column 919) *John Penrose* … there are at least two things that are seriously worthy for consideration as a thought starter, which might lead to the building of a consensus. One is the idea that we should combine working age tax credits, jobseeker's allowance, income support and the new employment support allowance in one overall benefit, with the condition placed on it that a person would have to be willing and able to work before it was paid to them. That may or may not be a good idea, but it is seriously simpler than what we have at the moment, and it avoids an enormous amount of the problems related to change of circumstances and to the cycle of people going in and out of work that I described before. It also avoids the problems relating to the linking rules.

We proposed a marginal deduction rate as a clawback mechanism to avoid the problems of means-testing, where anyone who went into work would have their benefit withdrawn at a particular rate to be decided by the Government. Such a system would be an awful lot faster and simpler to administer than the current tax credit system, because it would simply require the Department for Work and Pensions to inform Her Majesty's Revenue and Customs of a single number for every person earning a wage, which would then be withdrawn through their tax code. Again, that may be a good idea or it may not, but all we wanted was a constructive and considered response from the Government. I am sad to say that that is not what we got. On page 18 of the Government's response, they afforded the entire idea only this:

> 'The Committee's model is more radical - a form of Citizens Income' -

incidentally, it is not. Then went on to say:

> 'As described it appears, at least at first sight, to carry a risk of both very high expenditure and reduced work incentives.'

Full stop, end of response.

As an attempt to start a debate, that is absolutely pathetic. I am sad to say that it is not just pathetic, but also intellectually lazy, complacent, arrogant and weak, and I believe that it shows that the Government are scared. I know that we need to do better, and I sincerely hope that the Minister will say how the Government proposes to do better.

*Miss Anne Begg (Aberdeen, South) (Lab)***:** I intend to speak for only a few moments because I do not want to repeat all of the points already made by other hon. Members. We all agree that the benefits system in this country is extremely complicated. We all agree that it should be simplified, and I suspect that we all agree that we are not quite sure how that might be achieved. Achieving that end will probably be a lot more complex than it first appears. The hon. Member for Weston-super-Mare (John Penrose) was perhaps slightly modest in not explaining that most of the ideas in annex A, which he has just outlined, were his own, but he is right to say that the rest of the Committee bought into them.

I have been attracted to the concept of a single working-age benefit since I joined the Select Committee on Work and Pensions in 2001. However, the longer I have looked at how it might work in practice, the more I have realised that a single working-age benefit would be much more complex than some of those who propose it lead us to believe. It is superficially attractive because it seems simple and clear, but we need to ensure that those who lead complex lives or have complex needs continue to get the support that they do under the present system, despite its complexities and all the forms that individuals have to fill in. As a country, we need to decide a way forward, and work out the best way to simplify the benefit system in order to get the son of Beveridge; 60 years on, our country is a different place, and we need a very different benefit system.

The proposal in the Select Committee report for a welfare or benefits commission along the same lines as the Turner commission on pensions is the right way forward. There has been a unified voice in the Chamber this afternoon, saying that that would allow the Government to take time, stock and even a step back and begin to consider the benefits system as a whole rather than its individual pieces, and instead of tinkering with improvements and reforms here and there. We all know that reforming one part of the benefits system often has unintended consequences and knock-on effects on other parts. Therein lies the problem and the complexity.

Often, for the best of reasons, attempts have been made to simplify benefits, but we have ended up with historic rights, which the Chairman of the Select Committee mentioned this afternoon. For all the reasons to which he referred, and because we still operate systems to ensure that individual claimants are not worse off in cash terms, we have a complex system.

The Government now have an ideal opportunity to act because, for the first time in several years, a brand new benefit is being introduced - the employment and support allowance. The basis for that allowance could be the basis on which a single working age benefit could work. Some of the groundwork has already been done, but we need a much broader investigation into what a benefits system in the 21st century should be and how the different elements should interact.

I honestly believe that a commission, led by someone of the stature of Lord Turner - I do not think that he would necessarily take it on - could build political consensus. In the same way as we needed political consensus for a pensions system that would last not for 10 or 20 but for 50 years, we need to build a welfare system today that will, like that of Beveridge, last for 60 years. We cannot do that without all-party support, or without engaging with not only people in this place but those who depend on the welfare system, and wider society.

I genuinely encourage the Minister to consider seriously the proposal to set up some sort of welfare or benefits commission to ascertain whether we can progress and have holistic change, which makes sense. That would ensure that we were not back here in five years -

Chris Ruane (Vale of Clwyd) (Lab): I hope we are back here in five years.

Miss Begg: Yes, I, too, hope that we are back in five years, but talking about the commission, not still discussing how awful and complex the benefits system is and how it continues to fail the most vulnerable people in society. I hope that the Minister will take our comments and the proposal for a commission seriously.

Conference report

Tackling Child Poverty – A European Challenge, 29 June 2007, Edinburgh

A roundtable discussion seminar organised by The Poverty Alliance, Glasgow, on behalf of the European Anti-Poverty Network UK

The Social Protection Committee of the EU is consulting Governments across Europe on their approach to tackling child poverty, leading up to the publication of the Joint Report on Social Inclusion and Social Protection by the European Commission in 2008. This event was an opportunity to discuss the UK Government's response to the consultation (DWP, *Working for Children*, March 2007). It was chaired by Catherine Stihler MEP.

After initial contributions by Chris Brunton of the Child Poverty Division, DWP, and Professor Adrian Sinfield of the University of Edinburgh, this event was divided into three roundtable sessions. The first, 'Incomes and work', was led by Sian Jones of the EAPN, Brussels. The second, on 'Children at special risk of social exclusion', was led by Jana Hainsworth, Secretary General of Eurochild. The last was about 'Education and Access to Services', and was led by Tam Baillie, Assistant Director for Policy and Influencing, of Barnados

Chris Brunton's talk, 'Tackling Child Poverty: Future Challenges', looked at alternative definitions of relative poverty and of current causes of poverty, and identified the groups most at risk. In 1997, 1 in 3 children in the UK, i.e., between 3 and 4 million, lived in poverty. This was one of the worst records in Europe. In 1998/9, the Government set targets to reduce child poverty by a quarter by 2005, by a half by 2010, and to eradicate it by 2020. Brunton outlined the three-fold strategy adopted to tackle the problem, through greater employment, financial support in the form of Child Tax Credits, and the provision of high quality public services for all families.

Professor Adrian Sinfield was scathing about the UK Government's record on tackling child poverty, pointing out that there was no framework for such a policy, that there was no guaranteed adequate income for families with children, and that the Government's first target had not been met. The government criticises the population's 'poverty of aspirations', but does not recognise its own poverty of aspirations for tackling poverty. Government benefit levels are even lower than their own poverty benchmarks. The Government should attack poverty, not the poor. Sinfield emphasised the need to prevent poverty, not just to plug the holes after the event. As with clean water or clean air, so with benefits; prevention is better and cheaper than cure. He cited the gender pay gap, and the undervaluing of service sector work, as being linked to child poverty. He pointed out that if only the respect now shown for wealth and money-making (where annual incomes of £100,000 and over are growing by 7-10% pa, according to Anthony Sampson) were accorded to the problems at the lower end of the scale, they would soon be solved.

The roundtable discussions were interesting, with many well-informed contributions. The Nordic countries, Denmark, Sweden and Finland, with their lower inequality rates, together with Belgium, have managed to cut their child poverty rates to less than 10% and came out of the discussion well. While Child Benefit was the most successful benefit that the UK has ever implemented, Child Tax Credit, the current Government's preferred option, has become part of the problem. The problem of in-work poverty was discussed. Only one third of poor families is jobless. The need was recognised for a family-friendly industry, countering the culture of long hours in the UK and providing flexible working for parents. A much larger set of groups of children who are at risk of poverty was identified than those mentioned by Chris Brunton, including children-in-care, young carers, and children with disabilities. Reference was made to The UN Convention of the Rights of the Child, (signed by all countries except Somalia and the USA), which advocates the promotion of the *well-being* of the child. It accords with my own view that, while an appropriate benefit system with adequate benefit levels is a necessary condition, it is not sufficient by itself, and that other services, including access to affordable childcare and decent work opportunities, education, housing and health services, are also necessary to create 'the good society'.

Anne Miller

Reviews

Brian Steensland, *The Failed Welfare Revolution: America's Struggle over the Guaranteed Income Policy*, Princeton University Press, Princeton, 2008,

Hard as it is to believe today, there was a brief period when the United States government seemed inevitably bound to adopt some form of guaranteed income. The idea seemed to emerge from nowhere in the mid-1960s, when it was suddenly discussed by most major political actors. President Nixon proposed a watered-down version of the guaranteed income, which overwhelmingly passed the House of Representatives, only to be narrowly defeated in the Senate. The idea continued to be discussed during the Ford and Carter administrations, but by 1980 it was out of mainstream politics.

Brian Steensland is a professor of sociology at the University of Indiana. His new book, *the Failed Welfare Revolution: America's Struggle over the Guaranteed Income Policy*, chronicles the history of the guaranteed income movement of the 1960s and 70s, examining how and why it sprang up so suddenly, took on its air of inevitability, and as quickly disappeared from the political mainstream.

Steensland's work is extremely thorough. He seems to have found every speech and article by every politician, pundit, columnist, union leader, nonprofit director, and political activist, who ever spoke or wrote on the issue. He discusses the internal squabbles of the Nixon administration from which the administration's version coalesced into 'the Family Assistance Plan.' He reports on which Senators and Representatives supported or opposed the bill in committee, who changed their minds, when and why. His thoroughness makes the book tough going at times, but serves a worthy purpose. Steensland paints a vivid picture. Reading this book I feel as though I know what happened, what went wrong, and what opportunities were lost.

The guaranteed income emerged in policy circles in the mid-1960s as the confluence of several events, among them the growth in political attention to poverty, the belief that something must be done about the welfare system to help reduce poverty, and the endorsement of the guaranteed income by widely divergent policy experts. The guaranteed income briefly became the consensus view of economists, who put it forward as the scientific solution to poverty. The guaranteed income faced the prospect of being able to attract broad support from both left and right. For those on the left, the guaranteed income offered greater freedom and less supervision for the poor and a breakdown of the distinction between the so-called deserving and undeserving poor. For those on the right, it offered greater incentives for people receiving public assistance to enter the labor force and greater support for the working poor—usually believed to be the most deserving of all.

Instead, the Family Assistance plan managed to alienate critics of the welfare system from both left and right. Many welfare-rights activists viewed the plan as a reduction in welfare benefits for the most needy; and many conservatives viewed it as a major expansion of the number of people 'on the welfare rolls.' The defeat stemmed largely from Nixon's failure to capture the rhetoric. His speeches largely played into the hands of the plan's opponents. Even so, the defeat was extremely narrow. Had Nixon been willing to expend more political capital on it, to make the right promises, and to twist the right arms, he may well have got it through the Senate in 1970. Instead, critics of the plan took the initiative and created new policies, such as the Earn Income Tax Credit, that incorporated some aspects of Family Assistance Plan, but reinforced the distinction between the so-called deserving and undeserving poor.

By the late 1970s the opportunity was gone. The 'welfare mess' remained a political concern, but poverty did not. By the time Ronald Reagan was elected in 1980, poverty was no longer seen as a problem in need of a better solution. The welfare system was seen as the problem, and the most popular solution was for government to do less to address poverty.

Karl Widerquist

Michael Hill, *Pensions*, Policy Press, 2007, xiii + 183 pp, pbk, 978 1 86134 851 7, £12.99

This book is the first in a new series designed by the Policy Press to guide the reader through hotly debated topics: and where better to start than with pensions.

Very sensibly a glossary is placed at the beginning. This introduces the reader to essential terms and enables them to make sense of what follows. What follows is clear and well-organised – and particularly clear about the complexities resulting from policy inevitably being shaped by compromises based on previous compromises.

The author's early chapters contain histories of pensions and of pensions policy in the UK, and these parts of the book will be useful to students of the subject. What emerges is government preference for means-tested and asset-tested pensions (now in the form of Pensions Credit) rather than for uprating the contribution-based basic state pension. It is interesting that Hill defines Pensions Credit as the 'first tier', followed by the National Insurance pension and the State Earnings Related Pension Scheme (SERPS) as the 'second tier', with a third tier being that of occupational and private provision. A more traditional listing would have put the National Insurance pensions first. Hill's listing relates well to the Government's preference for means-testing and also to OECD policy which is expressed using the same three tiers in the same order. (The International Association for the Study of Insurance Economics employs a listing different again: the first pillar is both means-tested and contributory state pensions; the second is occupational pensions; the third is private pensions; and the fourth is income earned after retirement age. *)

Then follow chapters on pension scheme adequacy (a wideranging and thorough discussion, particularly in relation to the often competing aims of income replacement and poverty reduction); alternative pension models (based on the first two tiers previously listed, and leading to a discussion of a selection of different countries' pension systems); pension age and retirement age (and the complex relationship between them); the alleged 'demographic time bomb' (Hill challenges the theory); and facing the future: the funding obsession. (The trend towards funded schemes is being driven by the alleged crisis, whereas Pay As You Go state pensions still have much to offer).

A chapter on pension reform worldwide questions whether current UK policy to improve SERPS and encourage private provision will do enough for carers (who 'work' but are not 'employed' and therefore get little out of a contribution-based system).

A Citizen's Pension appears in the glossary and then frequently in the book as an option for reform worth studying, and Hill is surprised that the Government's Pensions Commission didn't visit the Netherlands to study their Citizen's Pension (p.97). The fact that it *does* work in the Netherlands suggests that the Government here should not have been so quick to dismiss the option in their recent White Paper (p.164). Hill argues that today's means-tested system (which the White Paper does nothing to alter) discourages private provision for old age, and he advocates a

Citizen's Pension on the grounds that it will encourage both saving and older people's labour market participation.

We can only agree.

* International Association for the Study of Insurance Economics (The Geneva Association), newsletter 40, March 2007.

Paul Spicker, *The idea of poverty*, Policy Press, 2007, viii + 175 pp, pbk, 978 1 86134 888 3, £15.99, hbk, 978 1 86134 889 0, £55

This is a book for undergraduates studying social policy. It is accessible, wide-ranging, and well organised, and text boxes offer definitions and discussions of particular concepts and issues. (Given the market clearly envisaged, it's a pity that chapters don't end with suggestions for further reading and with questions to provoke thought on what the student has read).

Part I is titled 'understanding poverty' and contains chapters on definition, poverty in different societies, and statistics. Then follow sections based on particular definitions: 'poverty as material need', 'poverty as economic position', 'poverty and social relationships', and 'poverty as a moral concept'. The final two sections are on 'explanations for poverty' (- on why people are poor, and on why some countries remain poor) and 'responses to poverty'.

The style is often combative, and in the final section it is sometimes particularly so. Thus in relation to the slogan 'teach a man to fish and you feed him for life': 'This is staggering arrogance ….. Why do we imagine that people in developing countries do not have the basic skills for survival? Could we survive under the same constraints? Do international organisations really know more about fishing than people who spend their lives doing it?' (p.135).

Spicker is equally clear in his verdict on social protection systems:

> 'Social protection is not targeted on the poor, then, and it is debatable whether a focus on poverty is even a primary consideration. It is perhaps surprising, then, to discover that some of the national welfare systems which are most effective in dealing with poverty, like those in Northern Europe, have been based on the principle of social protection rather than poor relief. The schemes which do best, like provision for older people in Sweden, are the ones which provide for people regardless of need. Schemes which offer a 'safety net' do not do so well in securing a minimum income. If a system is based on support for everyone, poor people will also be helped. If it supports only the poor, some are likely to be excluded' (p.136).

When Spicker asks 'What works?' (p.143) he discovers that what works is generally policy which improves things for everyone rather than for a particular class of poor people (because that risks 'musical chairs', as Spicker puts it, i.e., some people take the relative positions which other people used to have).

This book both recognises the complexity of the situation and at the same time expresses the situation simply: real virtues in a textbook. A clear example of the combination appears on the final page:

> 'There is an argument for focusing on policies which have a generally beneficial effect, and limited movement is better than none; but most strategies based exclusively on one or two factors have failed, and no single element in policy can possibly deal with all the issues. At the very least, poverty has to be understood as relating to material need, economic circumstances and social relationships: no policy which fails to take each of those into account is going to address the main issues. Strategy needs, for the same reason, to be broadly conceived. Policies which look only at part of the problem might succeed but they will not satisfy the aspirations and concerns of different people if those concerns are simply ignored' (p.151).

Viewpoint

The Lump of Labour Fallacy Revisited

by Conall Boyle

1. The Theory: Lump of Labour Fallacy (LoLF)

A couple of years ago, Samuel Brittan, a long-time supporter of CI, sounded off [1] about the Lump-of-Labour Fallacy (LoLF): 'Basic Income has now become linked...sadly with the 'lump of labour' fallacy that asserts that there are not or will not be enough jobs to go round and so some other form of support is necessary.' Perhaps we ought to refresh our minds about this, to avoid falling into this trap again:

[1] Samuel Brittan reviews *Promoting Income Security as a Right: Europe and North America,* Guy Standing (ed), London: Anthem Press, 2004 in Citizens Income Newsletter No 2, 2005

This is what Samuelson's *Economics*, [2] a textbook used by millions of students, has to say about it: 'The lump-of-labor argument implies that there is only so much useful remunerative work to be done in any economic system, and this is indeed a fallacy. It is more correct to say that an economy can adjust to create *jobs* for willing workers. In the longer run, as prices and wages adjust to changes in technology and tastes, to supplies and demands, jobs will come to workers or workers will move to jobs. And in the short run, this process can be lubricated by appropriate macroeconomic policies. A look at history or across countries shows that there is no fixed lump of labor to be distributed—there is no need to ration out scarce work among the army of unemployed workers'.

The Economist (the magazine of choice for the decision-makers) website [3] gives some more information about the origin of this theory: 'In 1891, an economist, D.F. Schloss, described such thinking as the lump of labour fallacy because, in reality, the amount of work to be done is not fixed. Government-imposed restrictions on the amount of work people may do can actually reduce the efficiency of the labour market, thereby increasing unemployment. Shorter hours will create more jobs only if weekly pay is also cut (which workers are likely to resist) otherwise costs per unit of output will rise. Not all labour costs vary with the number of hours worked. Fixed costs, such as recruitment and training, can be substantial, so it will cost a firm more to hire two part-time workers than one full-timer. Thus a cut in the working week may raise average costs per unit of output and cause firms to buy fewer total hours of labour. A better way to reduce unemployment may be to stimulate demand and so increase output; another is to make the labour market more flexible, not less.'

This view of the LoLF has remained unchallenged (indeed virtually unmentioned) from within academic economic circles, although some outsiders do not accept the full logic of the case. (See for example what Tom Walker of Seattle has to say[4]). Even Sam Brittan accepts that in the short-run, adjustment may require sacrifices by workers, and Samuelson acknowledges that for some groups of workers job-sharing may make sense. So the academic, theoretical case seems pretty water-tight: It is wrong to say that the number of jobs is fixed. Given flexible markets, the amount of paid employment can be expanded to equal whatever number is required by those willing to work.

2. The 1980s apostasy: Thatcher falls for LoLF?

When the Basic Income Research Group (as it was then called) started back in 1984, I, like most of the others in at the start, was concerned by the appalling rise in the numbers of the unemployed. 'Instead of wasting billions keeping huge armies in idleness, wouldn't it be better to pay them an unconditional weekly income, and let them find something useful to do?' was an obvious reaction, and so the idea of Basic Income took off. Hermione Parker actually called her 1989 book on CI *Instead of the Dole*. We too, it seems, had fallen for LoLF. If so, we had some strange bedfellows: the Thatcher government, composed of convinced free-market believers. When market liberalisation failed to cure mass unemployment, the 1980s Tory government moved directly to reduce the Lump of Labour:

- early retirement was encouraged in the public services, like teaching. (Pension funds were raided to pay for this wheeze)
- Disability allowances (the so-called bad-back payout) where workers were declared unfit, expanded several-fold, with government connivance. There are still 2.75 mn workers in receipt of this payout
- Higher education places were expanded, with little extra funding.
- Youth training schemes abounded. None lasted long. None gave much real training, but all managed to keep large numbers of young people out of the labour-force.
- The Community Programme/Enterprise Allowance which offered £50 per week for a year to do something, with few questions asked. This proved very popular, a million took it up, many new business ideas were tried out. Again, the numbers were subtracted from the labour-force, but this crypto-proto-CI was stopped for being 'too popular'.

Some of these 'lump-of-labour' reduction programmes are still in action today. Generally, those of us in BIRG disliked the deceit involved, but accepted that the Government was doing something to alleviate a problem. In effect the Government had conceded that there weren't enough jobs to go round. We would have preferred an open declaration to that effect, followed by a Basic Income for all as a better solution. We may

[2] Samuelson, Paul & Nordhaus, William (1989) *Economics13e* McGraw-Hill New York. p687

[3] http://www.economist.com/research/Economics/alphabetic.cfm?LETTER=L

[4] http://maxspeak.org/mt/archives/lump%20of%20labor.pdf

have fallen for a LoLF, but so it seems had the Thatcher government.

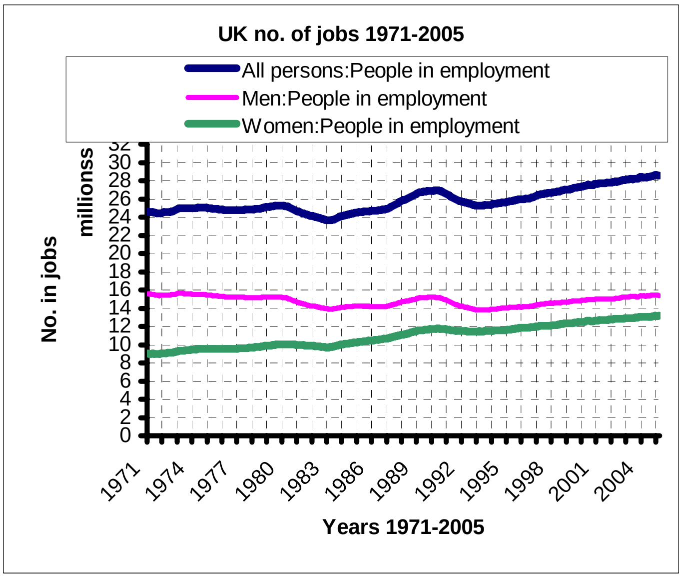
3. A 'Failed' European attempt to reduce unemployment: the 35-hour week

During the 1990s, the governments of France and Italy proposed cutting their legal working week to 35 hours as a way to reduce unemployment by sharing jobs more widely. This was one of the moves taken by EU countries to harmonise and reduce working hours, and it was supported widely by trade unionists. Did reducing working hours and job-sharing lead to less unemployment? The short answer is 'No'. The evidence for this can be found in the economic literature[5]:

'Our empirical analysis does not provide support for the proposition that work-sharing would reduce unemployment. The results (do) show a positive direct effect on employment of a reduction in working hours.' At least the move to work-sharing through shorter hours did not make unemployment *worse*, and perhaps the civilising effect of more time off work has been a worthwhile human achievement.

4 The UK proves them wrong? Absorbing a new lump

The following graph summarises the success of 'New Labour' in producing a job-creating economy[6].



To increase the total number of jobs since 1997 by more than two million is very impressive. Broken down into men's and women's jobs, the numbers have increased by about one million for each. In the longer term (over 30 years) the picture is different: since 1971 the number of jobs for men has *decreased*. For women the story is one of almost continuous increase, with 50% more jobs in the same period. The major social change whereby women choose to participate in the labour market, rather than stay at home as housewives, produced a large new lump of labour. The flexible UK labour market could cope by absorbing them in large numbers, creating millions more new jobs in the process.

Abandoning social protection, or at least not repairing the damage done to it during the Thatcher years is one of the main reasons why the extra lump of labour has been absorbed. Another is the extra public spending under New Labour. This has translated directly into many public-sector jobs. And of course, following the Phelps theory of an irreducible 'Natural Rate' of unemployment, Gordon Brown has introduced subsidies: The WFTC working families tax credit is seen as a means of creating extra low-paid jobs, more than the economy, left to its own devices would have produced.

5. Lump of Labour or is it Lump of Jobs?

Not surprisingly, Sam Brittan is correct when he draws our attention to the LoLF. But there are a few points to remember:

(i) To demonstrate that the LoLF is indeed fallacious requires dismantling many employment protection rights.

(ii) The effect takes time. Should a new lump of labour become available, such as mass layoffs in an industry, they can all *eventually* be absorbed into jobs.

(iii) LoLF is only concerned with one form of work – *paid* employment. This reflects the economists' curious doctrine of a work-leisure substitution effect.[7] Rational workers, they claim, make a calculation of how many hours they wish to work, for how much money, weighing this up against their time free off the job, which can then be devoted to 'leisure'.

The economists' belief that only those in a job do any work, and that all else is leisure is of course outrageous. Those not in a job are labelled 'inactive', which seems a nasty way to describe the efforts of parents caring for children, to take one example of this

[5] Arie Kapteyn, Adriaan Kalwijb & Asghar Zaidi The myth of worksharing *Labour Economics* 11 (2004) 293– 313 This paper is one of the rare occasions when the phrase 'lump-of-labour' appears in the economic literature. Also available at http://www.econ.ox.ac.uk/research/WP/PDF/paper032.pdf (in 2000)

[6] Source ONS Labour Market Statistics

[7] again see Samuelson, p680

'inactive leisure'. Perhaps it would be better to rename the LoLF as the *'Lump of Jobs Fallacy'!* In the brave new economic world of de-regulated and free-moving labour markets, the total lump of low-paid jobs can eventually be expanded to mop up all those who want a job. Whether that represents a triumph for the human spirit, I leave the reader to decide.

Conall Boyle had a job teaching economics to building and surveying students at UCE Birmingham. Having retired to South Wales, is now researching 'Who gets the prize: the case for random distribution in non-market allocation'. More about this on www.conallboyle.com

From the press

From 'Making poverty history', Tom Clark's interview with Peter Townsend in *The Guardian*, Wednesday 2nd April 2008:

'He retains a passionate belief that pension and child benefits should be paid as of right, rather than through the complex means-tested credits that Gordon Brown prefers. The prime minister says the money available has to be targeted so that the poorest get the most. But Townsend rejects the terms of that argument, insisting that a tax hike on the better-off would be a straightforward way to increase the size of the cake, to the point where all young people and older people get a decent slice of benefit automatically.'

A Citizen's Income Trust Seminar Series

A Citizen's Income for All in the UK

January to March 2009

In early 2009 the Citizen's Income Trust is planning a series of academic seminars throughout the UK, in close collaboration with six major universities. The series aims to draw attention to Citizen's Income as a genuine, universal alternative for the current selective work and means-tested approach to welfare policy in Britain.

From January through to March 2009, leading academics in the fields of politics, philosophy and social policy will discuss the prospects of introducing a Citizen's Income for each UK citizen in the post-Blair era. Participants include Prof. Bill Jordan (University of Plymouth), Dr. Tony Fitzpatrick (University of Nottingham), Dr. Louise Haagh (University of York), Prof. Ruth Lister (Loughborough University), Prof. Guy Standing (University of Bath) and Dr. Stuart White (University of Oxford).

The seminars will be hosted by the Department of Politics, Philosophy and International Affairs (Queen's University Belfast), the Centre for Applied Philosophy and Public Ethics (University of Brighton), the Centre for Social Ethics (University of Newport, Wales), the International Centre for Public and Social Policy (University of Nottingham), the Department of Politics (University of York), and the Department of Politics (University of Reading). All seminars will be open to the general public.

Further information can be found on the CIT website at www.citizensincome.org/seminars2009.shtml

or contact the organisers at seminars2009@citizensincome.org.

Contributing financially to the Citizen's Income Trust

The Citizen's Income Trust relies entirely on voluntary labour and on individual donations to carry out its work, and we are very gratefully to those who contribute financially.

It is now possible to use your credit card to contribute to the Citizen's Income Trust's funds by going to:

www.mycharitypage.com

It is still possible to contribute by cheque, of course. Cheques payable please to 'Citizen's Income Trust'.