Citizen's Income *newsletter*

2010, issue 3

Contents

Citizen's Income Newsletter
ISSN 1464-7354

Citizen's Income Trust
37 Becquerel Court, West Parkside, London SE10 0QQ

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

Editorial

There are two particularly interesting aspects to the debate surrounding the announcement at the Conservative Party Conference that Child Benefit is to be denied to any household in which someone is paying higher rate tax.

One is the argument accepted by so many commentators and Conservative Party members: that it is wrong for people on low earnings to be paying tax which is then paid in Child Benefit to high earners. What they seem not to have noticed is that: a) higher earners pay far more in tax than they receive in Child Benefit, so they already fund a higher proportion of the cost of Child Benefit than low earners do; and b) in order to deprive higher rate taxpayers of Child Benefit an entirely new and expensive administrative function will need to be established, thus wasting public funds. It is difficult to see why the Government made the announcement it did.

Why not instead raise the upper earnings limit on employees' National Insurance contributions? This could reduce the deficit by the same amount, and it would not add to administrative costs.

The second interesting aspect of the debate is that it offers evidence of massive public approval of universal benefits. Child Benefit is popular because it provides a secure income floor for families with children; over- and under-payments are almost unknown; administrative costs are very low; and, because everyone with children gets it, it contributes to social cohesion.

If the Government wants to reduce administrative waste and at the same time unite our society (- and isn't a cohesive society a prerequisite of the Big Society?) then not only should it leave Child Benefit well alone, but it should also seek additional policies which will contribute to social cohesion, enable society as a whole to contribute to the costs of bringing up children, reduce inequality, and reduce administrative costs. To move from the proposed Universal Credit to a Citizen's Income would do all of this.

Could the Government ask for more?

21st Century Welfare

We are grateful to Rightsnet (www.rightsnet.org.uk) for permission to reprint the following summary of the Department for Work and Pensions' consultation paper:

Options for reform outlined in the consultation paper - designed to simplify the system, for example by reducing the number of benefits and tax credits; and to improve work incentives, for example by removing the current 'very high' marginal deduction rates that apply to people's benefits when their incomes rise – include:

1. A Universal Credit:

A new approach to supporting working-age households, the Universal Credit would bring together existing income-related out-of-work benefits and tax credits into a simpler, integrated system to support people in and out of work and would

- combine elements of the current income-related benefits and tax credit systems;
- bring out-of-work and in-work support together in a far simpler system; and
- supplement monthly household earnings through credit payments reflecting circumstances, including children, housing and disability.

In addition, to improve incentives to work (especially for low earners), people entering paid work would see no reduction in their Universal Credit until they earned over a certain level and, in order to improve the incentive to earn more, the system might involve applying a single taper to reduce the Universal Credit where earnings (net of tax and national insurance) exceed the level of the earnings disregard in place of the current different withdrawal rates across out-of-work benefits, tax credits, housing benefit and council tax benefit. This taper could apply to all earnings, regardless of the number of hours worked.

2. A Single Unified Taper:

Whilst a ‘set of benefits’ - including the major out-of-work benefits and tax credits - would be retained to reflect the fact that different families need support for different reasons, the introduction of a Single Unified Taper would mean that once eligibility has been assessed, the system could work without earnings disregards and withdraw benefit entitlement in such a way that a person's Marginal Deduction Rate would be constant, until benefit receipt is exhausted.

This would be achieved, as an individual’s income increased, by withdrawal through a taper that would be applied to their overall benefit eligibility, rather than the individual benefits as is currently the case.

3. A Single Working Age Benefit -

Proposed by the Institute for Public Policy Research (IPPR), the Single Working Age Benefit model is based on a single flat rate benefit that would give all working age claimants the same level of replacement income, regardless of whether they were jobseekers, lone parents, sick or disabled.

Other key features of the model would be:

- no contributory entitlement;
- a universal non-means-tested entitlement for the first 12 weeks out of work;
- all benefit beyond 12 weeks to be means-tested; and
- the option of individualised entitlement for couples.

Whilst the IPPR envisages that the Single Working Age Benefit would replace existing out-of-work benefits, there would continue to be separate provision for extra costs, and tax credits would remain as now.

4. The 'Mirrlees' model

Proposed by the Institute for Fiscal Studies, this model would replace child tax credit, working tax credit, income support, JSA, housing benefit, council tax benefit and child benefit with an integrated ‘family allowance’ paid directly into bank accounts and withdrawn using the 'withholding system' for income tax.

Whilst the allowance would be far less generous than current income support levels (£50 for a single person), earnings up to £90 would have no impact, and earnings above this would be subject to a 30 per cent withdrawal rate (with an additional 15 per cent on the housing element). Tax allowances would be adjusted so that tax and NI would be payable once the earnings disregard had been exhausted.

5. A single benefit/negative income tax -

Recommended by the TaxPayers’ Alliance, this reform would bring together a large number of existing benefits but, unlike other approaches that introduce a single benefit, it would involve the introduction of a negative income tax. This would replace current income-replacement benefits and tax credits, although a number of the current benefits aimed at supporting those with a limited ability to work or who need extra support would be retained.

Under the model, a household’s eligibility for the negative income tax would be based on their characteristics, and set equal to a given proportion of (equivalised) median income. As household income increased from individuals moving into work or progressing in work, the level of the negative income tax would be reduced in such a way that the Marginal Deduction Rate (inclusive of income tax, NI contributions and the withdrawal of the negative income tax) was constant until all support was exhausted. This implies that the system would not have a system of earnings disregards.

Alongside the potential for structural change, the consultation paper also sets out proposals for other areas of reform that include:

- the scope, with the move toward a single payment, for conditionality to be determined not by the benefit received but by the reason for receiving benefit, thereby creating a 'single progression to higher levels of conditionality';
- moving to a less centralised, more devolved welfare system - as is the case in a number of countries, including Switzerland, the Netherlands and the United States - which might stimulate innovation and ensure that systems are more aligned to local circumstances, for example by giving more discretion to advisers at the local level; and
- consideration of the need to achieve a balance between contributory benefits and targeting support on those with the lowest incomes.

In addition, the DWP outlines the 'significant implications' that its ideas for structural reform could have for the way that support is delivered and for how individuals interact with the system, for example:

- the scope for claimants to be able to make a single application for all major entitlements, ending the excessive form-filling of the current system;
- the impact on the current organisation of work between the DWP, the Revenue and local authorities;
- the possibility of introducing a system that uses real-time data - that would involve employers reporting their employees' earnings to the Revenue at the time the earnings are paid rather than only at the end of the financial year - which could present opportunities to use real-time earnings data in the calculation of entitlement, and remove the need for claimants to notify changes of income; and
- the impact of significantly reduced complexity on the level of error and overpayments, with fewer mistakes being made by staff and claimants whilst navigating the system, and of having one main gateway for claimants to access the system that should make it impossible for people to represent themselves differently to different parts of an organisation.

The full report can be found at www.dwp.gov.uk/consultations/2010/21st-century-welfare/

A response by the Citizen's Income Trust to *21st Century Welfare*

Introduction

We begin our response with a question which the consultation document hasn't asked:

Income tax, National Insurance contributions, Tax Credits and welfare benefits together provide the structure for income maintenance. Should all aspects of this structure be considered together during this consultation?

The answer to that question surely has to be: 'Yes, if the Government's aims are to be met.' The entire system needs to encourage employment, save money, promote fairness, and provide sufficient resources for those who need them most.

This positive answer to our own question underlies our responses to the consultation's questions.

We believe that the objective of income maintenance reform in the longer term should be the implementation of a Citizen's Income: a universal, unconditional, non-withdrawable payment to each legal resident individually. This should replace most Tax Credits and means-tested benefits, but we recognize that payment of Housing and Council Tax Benefits would have to continue alongside the individualized Citizen's Income. The level of the Housing and Council Tax Benefits would be just sufficient to meet the different needs of claimants in single or multiple occupancy, with a cap varying geographically.

We therefore support the proposals in the Consultation Paper for an income maintenance regime in the shorter term for adults below pension eligibility age comprising the following elements:

- A progressive system of Income Tax (including employees' National Insurance contributions) levied on individuals, with personal allowances, as at present;
- Universal Child Benefit which is not means-tested or taxed and which should be increased when economic conditions allow;
- Reimbursement of actual extra costs, as distinct from earnings impairment, incurred by people with disabilities, without taxation or means-test;

- The replacement of all means-tested benefits and tax credits by a Universal Credit for households with a single taper rate of withdrawal, along the lines proposed.

We see this as a step in the direction towards a regime comprising:

- A Citizen's Income for each legal resident individually at different rates for children, adults of working age, and adults above pension eligibility age, with supplements for the actual extra costs incurred by people with disabilities, replacing personal tax allowances and tax credits and as many means-tested benefits as possible;
- A unified benefit payable with a single taper rate of withdrawal to replace Housing and Council Tax Benefits.

We support the policy that those with no earnings should be no worse off than now and that there should be a generous earnings disregard for those on low earnings. We await with great interest the DWP's calculation of what single taper rate would be possible in the light of: the necessary reductions in public expenditure to reduce the deficit; the expectation that most of the £5.2 billion estimated to be lost by errors, overpayments and fraud could be eliminated; the reduced cost of administering the simplified system; and the need to ensure that, compared with the reduced welfare payments introduced by the June 2010 budget, no one below median income (*not* median earnings) now would be significantly worse off.

We do not expect any significant increase in tax revenue to occur initially from transitions into, and out of, work, because, until substantial economic recovery occurs, there will not be sufficient new jobs to absorb the increasing numbers wishing to work.

Turning to the questions posed in the Consultation Paper, we respond to each in turn:

Question 1

What steps should the Government consider to reduce the cost of the welfare system and reduce welfare dependency and poverty?

The three parts of this question have a connected answer: If we are to reduce welfare dependency then we need to increase incentives to seek employment, incentives to learn new skills in order to increase earnings, and incentives to establish small businesses. This requires that marginal deduction rates should be reduced (that is, that less of each additional pound earned should be withdrawn through taxation and through benefits withdrawal). Increased employment and self-employment incentives will lead to more employment and self-employment, and this will in turn reduce poverty. It will also reduce the numbers of people in receipt of means-tested benefits and this will reduce costs.

It is true that increasing incentives will, in some cases, cost additional resources. Also, every restructuring creates winners and losers. The Government will need to agree an acceptable maximum for household losses in the lower earnings deciles and will need to test proposed schemes against this acceptable level. Schemes will also need to be tested as to whether they save or cost money in the aggregate. It will be particularly useful to develop a simple mechanism for regulating the ongoing costs or savings of a new tax and benefits system (- for instance, the National Insurance contribution upper earnings limit: a higher limit will result in reduced costs for the tax and benefits system as a whole).

Question 2

Which aspects of the current benefits and Tax Credits system in particular lead to the widely held view that work does not pay for benefit recipients?

Tax Credits, means-tested out-of-work benefits, Housing Benefit, and Council Tax Benefit. The tapers on these benefits, when combined with Income Tax rates, impose high marginal deduction rates of 85% on large numbers of household types across a wide range of earnings, and marginal deduction rates of 95% on significant numbers of households. The complexity of claiming benefits, the uncertainty relating to net income after moving into employment, and the complexity of reclaiming benefits if employment ends after a few months, are significant disincentives. These are even more significant for the large number of people who are out of work but very much want to work, particularly if they have dependents.

The diagram on p.12 of the consultation document is a little misleading as it suggests that Child Tax Credit isn't part of the problem. It isn't part of the problem for the earnings range along the horizontal axis for the household type for which the graph has been drawn. (We're not told the household composition, nor what rent they are paying). At only slightly higher earnings the Child Tax Credit will be withdrawn as earnings rise, thus contributing to the high overall taper and becoming part of the problem.

The only benefit that *does not* contribute to the problem is Child Benefit, which is paid unconditionally.

Question 3

To what extent is the complexity of the system deterring some people from moving into work?

If a household has one earner in full-time employment and is receiving Tax Credits, then for another adult to move into employment can provide little financial gain for the household. (This problem doesn't show up in tables and graphs of household gross earnings against household net income.)

If a household has no earners, then only if someone can enter employment *which they know will be permanent* are they likely to do so. The disruption to net income experienced by households in which someone enters employment and then leaves it again after a few months can be considerable.

If someone in a non-earning household is offered part-time employment then there will be little incentive to accept it and the disruption to the household's income maintenance strategy will generally be too daunting to contemplate. Here the combination of no financial incentive and the unpredictable changes to benefits can create a substantial hurdle which the household is unlikely to wish to attempt to cross.

The above responses relate to formal employment with employers who deduct Income Tax and National Insurance contributions, or to legitimate self-employment. Bill Jordan et al, in *Trapped in Poverty? Labour-market decisions in low-income households* (Routledge, 1992), have shown that low income households seek or create employment opportunities in the informal economy, and only enter the formal economy if the net change in income will be stable and significant. The system today is no less complex than it was in 1992, and is arguably more so.

Four factors work together to discourage legitimate employment and self-employment: 1. negligible net financial rewards; 2. complexity and the resultant unpredictability of outcomes of changes in employment status; 3. the serious disruption to income maintenance strategies which households face as their members enter and leave employment; 4. the sheer hard work of making benefit and Tax Credit claims: always time-consuming, often frustrating, and with the resulting benefits too often miscalculated. If they are too low then additional deprivation is the result, and if too high then the repayments demanded can cause debt and hardship. Most people know someone who has suffered these problems, even if they haven't suffered them themselves, and the danger of Tax Credit overpayments are therefore a significant disincentive to taking employment.

Question 4

To what extent is structural reform needed to deliver customer service improvements, drive down administration costs and cut the levels of error, overpayments and fraud?

In the current system, any change in circumstances requires human intervention: to receive and check information, and enter data. Reducing the level of such human intervention will save administrative costs and will reduce error rates. To remove it almost entirely, as with Child Benefit, will lower administrative costs and error rates as far down as they can go.

As the consultation paper identifies, duplication is a problem in the current system. It is a problem because each component of the system requires frequent human intervention. If such interventions were not required, or were required in only one part of the system, then duplication would not be a problem.

Integrating the benefits system and Tax Credits would create savings, and these would be significant if human intervention could be removed from large parts of the system. Even greater administrative savings will be achieved by integrating the tax and benefits systems as far as possible. This would mean that duplication between the tax and benefits systems would no longer occur. The transition into and out of employment would no longer require information to be received, checked and recorded, for those benefits paid that were not related to earnings or labour market status.

Structural reform of both tax and benefits based on a single simple, unconditional system would almost eliminate administrative costs, and would remove almost entirely the possibility of error, overpayment, and fraud (all of which are minimal for Child Benefit). Such a change would remove almost all need for customer service. (The reason we hear almost no complaints about Child Benefit customer service is that almost no customer service is required).

Successive Governments have failed to recognise that a substantial fraction of those claiming benefits for incapacity are, because of back pain, ME, clinical depression, etc., available to work intermittently, but liable (unpredictably from day-to-day) to have to cease work. The proposals to allow seamless transitions between out-of-work and in-work benefits would facilitate such people being able to obtain at least casual work, although their erratic availability for work does not make them good candidates for employment.

Although the benefit and other income of pensioners has been excluded from the scope of this consultation, it is worth taking into account the savings possible by including winter fuel payments and the value of free television licences in taxable income (but not means-testing the separate components). Poor pensioners would lose nothing, about half would lose 20% of their value, and a few would pay tax at 40% on these benefits.

Question 5

Has the Government identified the right set of principles to use to guide reform?

Yes. However, two of the principles make assumptions which, if made differently, would deliver solutions more coherent with the other five principles.

Principle 5: Omit 'in tandem … reinforcing conditionality'. There is no need to reinforce conditionality if the income maintenance system itself encourages responsible behaviour.

Principle 7: Rather than 'Ensure that the benefits and Tax Credits system is affordable in the short and longer term', the principle could read: 'Ensure that the income maintenance system is affordable in the short and longer term.' This allows for an integration of the tax and benefits systems and for the abolition of Tax Credits and means-tested benefits if that might deliver the kind of overall system which our economy and society need in the twenty-first century.

Question 6

Would an approach along the lines of the models set out in chapter 3 improve work incentives and hence help the Government to reduce costs and tackle welfare dependency and poverty? Which elements would be most successful? What other approaches should the Government consider?

We welcome the approach of a Universal Credit and a single taper rate, which is the DWP's own model in Chapter 3, as an acceptable reform for the time being with the possibility that it could be developed later into a scheme based on a Citizen's Income. We reject each of the other three models outlined as incompatible with some of the principles for income maintenance and as inconsistent with the later implementation of a Citizen's Income.

The IPPR's Single Working Age Benefit is unacceptable because it fails to integrate Tax Credits with benefits and because making benefits universal for twelve weeks and then means-testing them is incompatible with integrating in-work and out-of-work benefits to allow seamless transitions in and out of work.

The IFS / Mirrless model is unacceptable because Child Benefit is included in the income which would be withdrawn and because families out of work would receive substantially less than now.

The Taxpayers' Alliance's Negative Income Tax model, although superficially appearing to enable progress to a Citizen's Income, is unacceptable because it does not have a disregard for low earnings and does not integrate all benefits, leaving multiple taper rates.

The responses above suggest that a particular scheme which ought to be considered seriously is a Citizen's Income: an unconditional, non-withdrawable income for every citizen, which would be paid for by reducing means-tested benefits (including Tax Credits) and Income Tax allowances.

The Citizen's Income Trust submitted evidence on a Citizen's Income scheme to the House of Commons Work and Pensions Committee's *Benefits Simplification* enquiry in 2007. We enclose a reprint of the evidence printed in volume II of the enquiry report. We also enclose our most recent *Citizen's Income Newsletter*, which contains a research note on the effects of replacing Tax Credits with a Citizen's Income; and editions containing costings exercises for particular schemes. All of the schemes which we have researched are revenue neutral or potentially so, which means that minor variants could achieve cost savings.

A Citizen's Income would deliver every one of the seven principles for reform (as adjusted in our response to question 5):

1. To the extent that a Citizen's Income replaces means-tested benefits and Tax Credits, marginal deduction rates would be reduced and there would be improved incentives for seeking and taking employment and for improving skills in order to increase earnings. The Citizen's Income would be a constant contributor to net income, whatever the employment statuses of household members, and so it would not discourage transitions into and out of

employment.

2. These effects would be particularly noticeable at low wages, and would encourage individuals on low wages (and particularly those in part-time employment) to increase their earnings.

3. Because everyone would receive a Citizen's Income, it would unite taxpayers and benefits recipients in a single category. People in employment would receive a Citizen's Income and be taxed on all or almost all income. People not in employment would receive a Citizen's Income and would continue to need means-tested Housing Benefit and, if the Citizen's Income was not high enough to live on, other means-tested benefits. But the level of means-tested benefits required would be much reduced, making the transition into employment more attractive than the current conditional benefits regime.

4. Those most in need would, if able to work, be encouraged by lower marginal deduction rates to seek and enter employment, thus reducing the number of children in poverty. A Citizen's Income would operate in the same way as Child Benefit, and integration of the two systems would be easy to achieve. Interfaces with taxation and other benefits would be only as difficult as those tax and benefits systems. The Citizen's Income itself would contribute no difficulties to the interfaces.

5. A Citizen's Income would encourage employment and self-employment and thus responsible behaviour. A Citizen's Pension (- it's a pity that pensions are not considered in the consultation document) would function in the same way as a Citizen's Income and would encourage saving for retirement because the Citizen's Pension would not be reduced as income from savings rose. Means-tested benefits and Tax Credits based on joint applications encourage parents to live apart. A Citizen's Income, being individualised, would encourage them to live together.

6. A Citizen's Income would be as easy to automate as Child Benefit. Child Benefit attracts almost no fraud, and almost no errors or overpayments, and a Citizen's Income would exhibit the same characteristics. Employers' administrative systems would not be involved at all in the delivery of a Citizen's Income, thus reducing their costs and creating a more efficient economy. The need for customer service would be almost non-existent.

7. An income maintenance system based on a Citizen's Income could be affordable in the short and longer term. The costs of the Citizen's Income component of the system would be entirely transparent and predictable (as is the cost of Child Benefit). Any unpredictability would lie with remaining means-tested benefits such as Housing Benefit. A simple mechanism such as an adjustable National Insurance contributions upper earnings limit could be employed to regulate the cost of the scheme closely.

Question 7

Do you think we should increase the obligations on benefit claimants who can work to take the steps necessary to seek and enter work?

The more significant the incentives, and the smaller the disincentives, to seeking and taking employment and to training for employment, the smaller will be the need for enforcement of labour market behaviour. All of the proposed schemes should therefore reduce the severity of compliance mechanisms required. A complete absence of disincentives would deliver the lowest possible requirement for such mechanisms. The enforcement of specified labour market behaviour is expensive, so a reduced need for it will deliver cost savings.

Question 8

Do you think that we should have a system of conditionality which aims to maximise the amount of work a person does, consistent with their personal circumstances?

A free market in labour, with as few artificially imposed rigidities as possible, would be efficient for our economy. Only in such a free market will remuneration deliver efficient amounts of labour in relation to other production factors. Therefore, for an efficient economy, there should be as little interference as possible in the labour market. It is inefficient to require a particular individual, with their particular skill set, to perform an artificially imposed number of hours of labour. Therefore to create an efficient market in labour, that market needs to be isolated as far as possible from the worker's subsistence needs and the tax and benefits system needs to be isolated from wage rates and from the numbers of hours worked by any individual. Complete disjunction is clearly impossible, but any decrease in the connection will deliver greater efficiency. The schemes discussed in the consultation document all achieve greater disjunction. A Citizen's Income would do so to the greatest available extent, the increase in efficiency increasing with the level of the Citizen's Income.

Question 9

If you agree that there should be greater localism, what local flexibility would be required to deliver this?

Local discretion incurs costs and, because similar cases in different places will be treated differently, it can increase injustice.

The most successful benefit in terms of not increasing employment disincentives, low administrative costs, and almost no fraud, is Child Benefit. (The wealthy pay far more in Income Tax than they receive in Child Benefit, so it isn't a problem that they receive it). The universality and unconditionality of the scheme are what make it work. Benefits such as Child Benefit need to be administered on a national basis. If we are to reduce costs and increase employment incentives, our system needs to move in the universalist and unconditional direction, and so towards national provision and away from localism.

Question 10

The Government is committed to delivering more affordable homes. How could reform best be implemented to ensure providers can continue to deliver the new homes we need and maintain the existing affordable homes?

Given the mismatch between earned incomes and housing costs in many parts of the country (especially London), a Housing Benefit system will still be required. However, the taper will need to be reduced if Housing Benefit is not to continue to be the disincentive to households increasing their earned income, as it is at present.

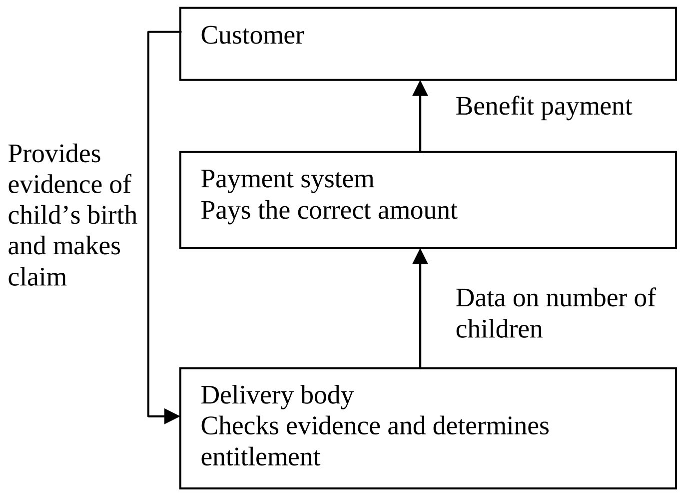
The Housing Benefit taper is a problem because so much of the current system is means-tested, creating a total taper of up to 95% for many households across wide earnings ranges. For the rest of the system to cease to be means-tested would mean that the Housing Benefit taper and the Income Tax rate would be the only tapers contributing to employment disincentives, so Housing Benefit would no longer be as much of a problem as it is now.

It is not obvious how structural changes in the benefits and income tax systems can have a direct effect on the housing market. The solutions lie elsewhere: in the building of more single-person homes, regulating the mortgage market to control house price inflation, applying Capital Gains Tax when householders down-size their homes, and generally discouraging wealthier people from using residential property as speculative investments.

Question 11

What would be the best way to organise delivery of a reformed system to achieve improvements in outcomes, customer service and efficiency?

The payment system diagram for Child Benefit looks like this:



If a Citizen's Income route to reform were adopted, then far less information would need to be received, recorded and monitored. These would include name, current address, date of birth, bank account details, and proof of identity and citizenship.

For any remaining means-tested benefits, such as Housing Benefit, the payment system will continue to be as on page 35 in the consultation document: but as the level of the Citizen's Income rises the number of people on means-tested benefits will fall (because increasing numbers will choose employment in preference to the means-tested system), and if a Citizen's Income replaces Tax Credits (as our recent research note suggests) then no further Tax Credits will need to be paid.

Instigating a Citizen's Income scheme would entail no information technology challenges. Outcomes would automatically improve as the number of claimants on means-tested benefits fell. The need for customer service would be almost entirely eliminated (as with Child Benefit). A Citizen's Income would offer the maximum possible administrative efficiency as well as the maximum possible economic efficiency. Crucially, employers' systems would not be involved in the delivery of a Citizen's Income.

Question 12

Is there anything else you would like to tell us about the proposals in this document?

It's a pleasure to see the new Government taking seriously the problems relating to the current benefits system and considering radical reform; but because the consultation paper is issued by the Department for Work and Pensions rather than by the DWP and HMRC together, and, because it treats benefits and Tax Credits in isolation from Income Tax and National Insurance contributions, the Government is in danger of missing an important opportunity for the radical change which our economy, labour market and society require.

The major reason for suggesting that tax and benefits need to be treated together is that only by considering Income Tax allowances and rates along with the structure of benefits and of Tax Credits can all of the available options for reform be considered. In particular, a Citizen's Income, which would deliver all of the Government's principles for reform (adjusted as suggested above), requires that Income Tax allowances be turned into cash payments as well as those parts of the Tax Credits and benefits systems becoming unconditional, non-withdrawable and individualised. In this way a Citizen's Income can be created and transitions into and out of employment can become seamless in relation to the tax and benefits structure.

The 21st century really does need a new approach, and a genuinely reforming Government offers the necessary opportunity to consider the broadest possible range of reform options. Back in 1983 a House of Commons Treasury and Civil Service Committee Sub-Committee recommended that a Citizen's Income should be seriously considered as an option for reform, and in 1994 the Social Justice Commission came to the same conclusion.

Particularly important in the context of the fast-changing society and economy which we are bound to see during the twenty-first century will be a tax and benefits system which is as simple as possible and with as few rigidities as possible. If for no other reason, a Citizen's Income would be a serious candidate for the necessary reform. But as we have made clear in our responses to the questions contained in the consultation document, there are numerous reasons to consider a Citizen's Income as an important option for the basis of the tax and benefits system that we now need.

Universal credits would be an important step towards a Citizen's income. A Citizen's Income would offer all of the advantages of Universal Credits; would offer additional advantages in terms of administrative efficiency, lower marginal deduction rates, the reduction of fraud, a more flexible labour market, and the strengthening of families; and would involve no disadvantages.

We recognise that further research is necessary. The Citizen's Income Trust has few resources of its own, and is most grateful for the help that it has received towards its contribution to the debate on tax and benefits reform. We are currently working with the University of Greenwich on a costings project, and would be pleased to work with others. We would be particularly pleased to be invited to work with the Department for Work and Pensions and with HMRC so that together we can explore the variety of feasible and cost-saving Citizen's Income schemes available.

Equality Impact Assessment

Household-based tax and benefits systems should be assessed for their impact on equality within the household. Universal, unconditional and individualised systems automatically treat everyone equally. Therefore any inequality in the system as a whole will be ameliorated by the extent of the universal, unconditional and individualised component, and any inequality remaining will be the result of the remaining means-tested elements of the system.

Internal consultation

This response is the result of consultation amongst the trustees of the Citizen's Income Trust and has been agreed by its Chair as representing the view of the Trust.

News

One of the more interesting pieces of news to come out of the recent Basic Income Earth Network (BIEN) congress is that **Iran might become the first country to establish a Citizen's Income**. Hamid Tabatabai's paper on the subject is soon to be published in *Basic Income Studies*. Tabatabai 'explains the development of the main component of Iran's forthcoming economic reform plan – the replacement of fuel and food subsidies with direct cash transfers to the population – and shows how a system of universal, unconditional and regular cash transfers is beginning to emerge, rather haphazardly but inexorably, as a by-product of an attempt to transform an inefficient and unfair system of sharing the country's oil wealth with the population through price subsidies.' To read *Basic Income Studies*, go to: www.bepress.com/bis/

The **Institute for Fiscal Studies** has published a briefing note on the distributional effects of the recent Budget: 'The measures introduced in the June 2010 Budget are regressive overall. Once we consider all reforms to be introduced by April 2014, the cash losses are smallest for the seventh, eighth and ninth income decile groups, and are very similar for all of the bottom seven expenditure decile groups. The progressive nature of the pre-announced measures is not sufficient to offset this, so the overall package of tax and benefit reforms is also slightly regressive, at least within the bottom nine income decile groups. The biggest losers from the June 2010 Budget are low income households of working age, while better off working-age households without children lose the least.' To see the briefing note, go to: www.ifs.org.uk/bns/bn108.pdf

The ***Guardian Weekly*** reports on a campaign in India for a 'universal distribution [of food stocks], rather than a targeted one, because the "poverty accounting" criteria in India are controversial and the lists are frequently manipulated and therefore unreliable. "A universal public distribution system would be a life-saver for the hungry, while for the others it would be a form of financial support and social security," explained Jean Drèze, an economist and member of the Right to Food movement. The Indian Government is to publish a Right to Food Act before the end of the year. For details, go to: www.guardian.co.uk/world/2010/sep/07/india-grain-farming-prices-poor

Research reported in ***Social Policy and Administration*** relates public attitudes in the UK and in Israel to the social welfare systems which have evolved in the two countries. The authors discuss the inefficiencies of the UK's means-tested system – 'it is expensive to administer and often misallocates resources' – but that it is 'relatively effective at preventing extreme poverty. … The British public may not support sufficient levels of redistrubution to end poverty but repeated surveys have shown that the overwhelming majority of the British public believes that no one should be unable to afford the basic necessities of life' (Menachem Monnickendam and David Gordon, 'Poverty, Government Policy and Public Opinion in Britain and Israel: A Comparative Analysis', *Social Policy and Administration*, vol.44, no.5, October 2010, p.570).

Conference report

The BIEN Congress in Sao Paulo

The Basic Income Earth Network (BIEN) has come of age. It held its fourteenth international congress in the Brazilian city of Sao Paulo on June 30-July 3, 2010, and was attended by over 400 participants from 31 countries, including representatives of the UK's Citizen's Income Trust, and was remarkable for the upbeat mood among the participants.

A primary reason for that was that Brazil's own *bolsa familia* scheme was working remarkably well. Members of BIEN had lobbied for a Brazilian cash transfer scheme in the 1990s, and after some years of scepticism this had helped lead to a series of experimental cash transfer schemes in Brazilian cities, known as *renda minima* and *bolsa escola* (school bags). When President Lula was elected in 2001 he consolidated several types of scheme in the *bolsa familia*, a cash transfer made conditional on families sending their children to school and to health clinics. By 2010, over 50 million Brazilians were receiving the cash transfers, and, under a law passed in 2004, the Government has committed the country to introduce an unconditional basic income as and when it can afford to do so.

Symbolic of the commitment, President Lula held a 90-minute discussion with the Executive Committee of BIEN on the day before the Congress, and the man who as Minister of Social Welfare had been responsible for introducing and implementing the *bolsa familia*, Patrus Anaias, actively participated in the Congress, as did the Senator for Sao Paulo, Eduardo Suplicy, who is now co-president of BIEN.

The mood at the Congress was optimistic, partly because 17 Latin American countries now operate cash transfer schemes and seem to be moving towards a universalistic type of system. The challenge now is to roll back the focus on *conditionalities*. Evidence presented at the Congress showed that the main reason why the cash transfers have had such a positive effect on poverty, nutrition, child school performance, income distribution and women's socio-economic status, is the provision of cash, and not the application of costly and onerous conditions.

Well over 100 technical papers were presented at the Congress. Among the most interesting was one on how the oil subsidy in Iran is being converted into a simple cash transfer, a form of basic income, without that being presented by the authorities as that. There was also news of pilot basic income schemes in Africa and India, exciting developments that are leading to important evaluation exercises that all advocates of universal basic income security should follow with interest.

At the end of the Congress, the Executive approved the new membership of the Basic Income Korean Network, the body representing activists and academics promoting basic income in South Korea. At the time of registering, the BIKN had 444 paid up members and has been expanding rapidly. It joined the Japanese Basic Income Network that had held its inaugural conference in Kyoto in April, which drew hundreds of academics and activists from across Japan.

Guy Standing, BIEN Co-President and CIT Trustee.

Reviews

Daniel Dorling, *Injustice: Why Social Inequality Persists*, Policy Press, 2010, xii + 387 pp, hbk, 978 1 84742 426 6, £13.99

The editorial for the *Citizens Income Newsletter* 2010, issue 1, in praise of Richard Wilkinson and Kate Pickett's book *The Spirit Level*, argued that we need to 'go deeper into the causes of inequality than the authors have been able to.' In Malcolm Torry's substantial review of that book, carried in the same issue, he noted that *The Spirit Level* should serve as a 'call to action' and that it was 'full of proposals for action.'

I begin with these points because, in many ways, they serve to frame the contribution made by geographer Daniel Dorling in his new book *Injustice: Why Social Inequality Persists*. The study of social inequality has been irreversibly altered by *The Spirit Level*, and in many ways Dorling's book should be read as a complement to Wilkinson and Pickett's. Yet it is, at heart, a fundamentally different sort of book. If, as Torry argued, *The Spirit Level* stands as a 'call to action,' then Dorling's book stands alongside it as a 'call to contemplation.'

Explaining the title of his book, Dorling writes that 'If you had to choose one word to characterise the nature of human society as it is currently arranged worldwide, there is no better word than 'injustice'' (pg 5). He proceeds to set out what he calls 'the five faces of social inequality.' These are, in turn, that 'elitism is efficient'; 'exclusion is necessary'; 'prejudice is natural'; 'greed is good'; and 'despair is inevitable'. Dorling argues that each of these beliefs has now become naturalised amongst a large proportion of the populations in the wealthiest, most unequal countries in the world, foremost amongst which he places the USA and Great Britain.

Following a short introduction and a subsequent chapter outlining the relationship between injustice and inequality, Dorling devotes lengthy chapters to each of his five faces of inequality. In turn, he exposes how elitism is bred through the structure of education in unequal societies, how social exclusion – normally targeting the poor and immigrants – has become the norm, how prejudice and a 'wider racism' are spreading thanks to inequality, and how the belief that 'greed is good' is leading to over-consumption and increasing waste within unequal societies. Backed up by detailed evidence, more of which can be found on the website accompanying the book, Dorling's arguments are – with the possible exception of his over-generalised use of the word 'racism' – persuasive.

Dorling goes beyond the analysis offered in *The Spirit Level* by offering an exacting critique of the ideas which sustain unequal societies. His book offers a trenchant assault on the elitist ideas structuring society, departing from the scholarly prose of Wilkinson and Pickett to offer an analysis tinged with real passion and anger. At times, this means that Dorling's analysis can seem a little simplistic – it is frustrating, for example, that despite his attention to the importance of ideas, Dorling makes no attempt to engage with the wide variety of theoretical work on justice and injustice. Yet, in a sense, this is a result of Dorling's overall approach, which argues that grand theories and projects are of little interest, and that instead we should be focussing on the way in which everyday ideas about injustice permeate society, become normalised, and result in unjust outcomes for particular groups of people.

Relating to the question of a Citizen's Income, Dorling's book makes two important contributions. Firstly, he calls for a 'living wage' in all affluent countries, drawing on the work of the Basic Income Earth Network to advance his case (pg 154). There seems to be some confusion here, given that a living wage and a Basic (Citizen's) Income are two different things, but Dorling does, later, make an explicit, although somewhat brief and uninspiring, argument in favour of a Citizen's Income as a means for making life in affluent countries 'less wasteful and more fulfilling' (pg 267). Whilst it is good to see a prominent academic arguing in favour of a Citizen's Income, it is a shame that Dorling's discussion of the pros and cons of the policy, as well as the undoubted difficulties which would stand in the way of its implementation, should be so short as to seem superficial. However, the second and perhaps more important point of relevance to the Citizen's Income cause is the argument for 'heterodox economics' which Dorling advances throughout the book. Drawing on exciting new economic thinking, such as Molly Scott Cato's *Green Economics*, Dorling makes the case for a steady-state economy – something for which *The Spirit Level* also argued. Throughout, Dorling engages productively with the idea that there might be limits to sustainable economic growth. It is this sort of economic thought – focused on people not profit – which can take us beyond the impasse reached by neoliberalism, and which might be a precursor to the establishment of a Citizen's Income.This reader disagrees with Dorling's prioritisation of ideas over and above political action, believing instead that a more intricate combination of the two is required. However, Dorling is surely correct to argue that ideas have material consequences, and as such his work needs to be taken up by those working to change both the ideas which structure society, and the very structures themselves. Certainly, at a time when David Cameron and Iain Duncan Smith, with Nick Clegg as their willing accomplice, are launching their assault on the welfare state, the challenge to conventional thinking offered by Dorling is more important than it has been for a generation. This book deserves a wide readership, and ought to be engaged with by anybody hoping to contest the ideas which underlie social injustice

Daniel Whittall

Tony Fitzpatrick, *Voyage to Utopias: A fictional guide through social philosophy*,

Policy Press, 2010, 256 pp, pbk 1 84742 089 3, £12.99

Two children, Zadie and Jake, visit their grandfather, Cramps, and he takes them on a journey through time and space. Each time they land they're in a world which represents a social philosophy. We meet the Noughts, paid for queuing; the Rads, who want to change things; the free market Dearbrook; Williams the communist; Myllan the egalitarian; Hughes, the pragmatic environmentalist; a Remoralisation Centre; the Museum of Cultural Identity; and a communitarian, a republican, and a radical devolutionist. We meet Aon and Kayne, who get swept along in Cramps', Zadie's and Jake's time travels; we meet Virgil, the machine which controls it all and sometimes doesn't; and we find out that Cramps and Virgil have an interesting history.

Fitzpatrick has written an 'educational novel' which he locates in the same category as *The Pilgrim's Progress*, *Gulliver's Travels* and *Sophie's World*. The 'educational' intent is clearly signposted by the table at the beginning which tells the reader which social philosophy can be found in which chapter – 'Free market liberalism: chapters three – four' – and by the notes and reading lists at the end of the book. Fitzpatrick is clearly hoping that the book will help undergraduates to get to grips with the variety of social philosophies, which is what the book's dialogue is all about.

But is it a good novel? In *The Pilgrim's Progress* the plot and the educational content draw from the same theological wells, which is why the book works so well. The structure of *Voyage to Utopias* is a time travel story, whereas the dialogue is social philosophy, so we sometimes feel as if we're reading two books at once, the latter of which feels more like William Paul Young's *The Shack* than Bunyan's *The Pilgrim's Progress*. *The Shack* was a huge success, and I hope that Fitzpatrick's book will be too.

For the twelfth chapter's brief vision of environmental disaster alone the book should be on the reading list of every student of social philosophy.

Julian Le Grand, Carol Propper and Sarah Smith, *The Economics of Social Problems*,

Palgrave Macmillan, 4th edition 2008, viii + 208 pp, pbk, 0 230 55300 1, £24.99

This is the fourth edition of an important textbook which for over thirty years has helped students of social policy to understand economic theory and the ways in which economic analysis contributes to social policy. Equally, it has helped students of economics to experience their discipline as a practical one which can inform social problems just as much as it can inform such economic problems as inflation and economic growth.

This edition contains new chapters on pensions and on climate change, and all of the other chapters have been rewritten, but the basic approach of the book is as before: to understand social policy's aims as efficiency and equity; to ask whether in each social policy field the private market can achieve these aims; and to evaluate the effects on efficiency and equity of government intervention. 'Government failure' is now as much a part of the agenda as 'market failure'.

Of particular interest to readers of this *Newsletter* will be the new chapter on pensions. Here, efficiency is understood in terms of income smoothing, and concepts such as the diminishing marginal utility of consumption discounting and expected benefit are explored. Equity as an aim generates a discussion of relative poverty and of different ways of measuring poverty. Equity requires government to intervene in order to provide sufficient income for those who cannot save enough during their working lives; and because a lack of information about investment options and their outcomes makes individual planning difficult, government also has to intervene in the cause of efficiency. The chapter compares different countries' systems and also the different instruments available to governments: means-testing, pay-as-you-go state pensions, funded 'social insurance', and the subsidy and regulation of private provision. The chapter might have benefited from discussion of the Pensions Policy Institute's work on a Citizen's Pension and in particular of the New Zealand example.

Of equal interest will be the chapter on poverty and welfare. A discussion of poverty and of the measurement of inequality is followed by one on objectives: minimum standards, social justice, and equality. The market's unwillingness to insure where the insured possesses more information about risk than the insurer does means that government taxation, provision and regulation are essential, and the chapter closes with a discussion of tax credits as a response to the poverty trap induced by means-tested benefits.

By relating economic theory to real-world social policy problems this textbook aids learning in ways in which a book simply about social policy or a book simply about economic theory could not hope to achieve.

If a fifth edition is contemplated then it would be interesting to see each chapter extended by the use of economic theory to suggest reforms in the field under review; and it would be particularly interesting to see a treatment of unversalism in each field. Universal provision *works* in health care and education, and there are reasons why it works; Child Benefit works; and new expressions of universalism in practical policy could work too. It would be pleasure to find 'universalism', 'Child Benefit' and 'Citizen's Income' in the fifth edition's index.

Viewpoint

Lessons of the Alaska Dividend

At a time when progressive social policies are under attack across the industrialized world, the Alaska Dividend continues to be extremely popular. It distributes a yearly dividend to every man, woman, and child in Alaska without any conditions whatsoever. It has helped Alaska maintain one of the lowest poverty rates in the United States. It has helped Alaska become the most economically equal of all 50 states. And it has helped Alaska become the only U.S. state in which equality has risen rather than fallen over the last 20 years. Certainly Alaska is doing something right.

As newsletter editor for USBIG (United States Basic Income Guarantee), I've followed the Alaska Dividend for the past ten years. I am currently in the process of co-editing a book on the dividend entitled *Exporting the Alaska Model* (Palgrave-MacMillan, forthcoming). In the process, I've learned several lessons that I believe are valuable to people interested in progressive social policy and the basic income.

The first and simplest lesson is that resource dividends are popular once they're in place. I'll talk about this more as I go.

The second and most important lesson is that the Alaska model can be exported. You might be tempted to think that anything connected with the Alaskan oil industry is an aberration; something possible only because of Alaska's oil windfall. But you do not have to be resource rich to have a resource dividend. There are three reasons why I know this is true.

First, Alaska isn't unusually rich. Oil has brought them from being one of the poorer states to being one of the wealthier states, but they are not the wealthiest state in the union. In fact, including the District of Columbia, Alaska ranks only tenth with a per capita GDP of about $42,000—only $2,500 higher than the national average.

Second, Alaska uses only a tiny fraction of its resource wealth to fund the entire dividend. Alaska has many valuable natural resources including forestry, fisheries, gold, land value, and so on. Only taxes on oil pay into the dividend. The taxes on oil drilling in Alaska are low by international standards. And, only one-fourth of the taxes on Alaska's oil go into the fund that supports the dividend. Alaska used most of its oil windfall to give itself an enormous income tax cut. It went from having one of the highest state income tax rates in the United States to having no income taxes at all. And it funded the dividend from what was left over. If Alaska actually used its resources to support the dividend, there is no telling how high it would be. Leaving income taxes as they were and devoting all of the oil taxes to the fund would have made the dividend at least four times what it is now. Raising oil taxes and treating other resources the way Alaska treats oil would make it higher still.

Third, every country, state, and region has resources. Gary Flomenhoft estimates that Vermont (a state not known for resource wealth) could support a dividend larger than Alaska's, if it made judicious use of resource taxes. The most resource-poor countries in the world are probably Hong Kong and Singapore, where millions of people are crowded together on a little island, and they have to import almost everything they consume. But these countries have fabulously valuable real estate. I wouldn't be surprised if a tax on Singapore's land could support something much larger than the Alaska Dividend.

All of this shows that Alaskans don't have the dividend because they are resource-rich; they have it because they took advantage of the opportunity. This is the third lesson: look for opportunities. Again, the Alaskan experience is no aberration. Common resources are being privatized all the time all over the planet. Every new well that's drilled is an opportunity to assert community control of resources. So is every new mine that's dug and every new reserve that's discovered.

Many other opportunities are less obvious. Recently, the United States government gave away the digital broadcast spectrum to television companies. If they had auctioned off leases to the highest bidder, they would have raised billions of dollars per year. The need to do something about global warming is another opportunity. Two strategies currently being discussed, "tax and dividend" and "cap and dividend" would make polluters pay for the damage they do to the environment and return the proceeds to everyone.

Of course, there is a danger in selling off resources and using the proceeds for the public benefit. People might then want to sell more resources to make more money. Once corporations have bought off the people, perhaps they can get away with doing even more damage to the environment. The solution to this problem is the fourth lesson: think like a monopolist. That is, once we assert community control of resources, members of the community need to remember that, as a group, they have a monopoly over those resources.

Monopolists maximize revenue, not by selling all they can at bargain prices, but by restricting supply, selling less at higher prices. One monopolist that we should take as a model is Johnny Carson. In the 1970s, he found himself to be the most popular entertainer on American television. He demanded and got a record high salary, but he didn't stop there. He had his workload reduced from five to four days per week, and his vacation time increased to something like three months per year. He realized that his time was not only valuable when he sold it, but also when left unsold. Our resources and our environment are valuable not only as items for potential sale; they are valuable just as they are. As community owners of our environment, thinking like the stockholders of a monopoly, we could have more money coming in at the same time that we also have larger parks, larger nature reserves, less pollution, and better resource management.

As for the danger that a dividend will buy off individuals' environmental diligence, remember that polluters have been doing a job on our environment for thousands of years without buying off the people they harm. Nobody got a dividend when the Stone Age Maori hunted the New Zealand moa to extinction. Nobody got a dividend over the hundreds of years it took the fishing industry to slowly destroy the cod fisheries on the Grand Banks. Nobody gets a dividend for the arsenic in our water or the sulphur dioxide in our air.

The assertion of the community's right to demand compensation for individual or corporate exploitation of our environment can actually be an important part of the solution to our environmental problems. The right to compensation is part of the right of ownership, and along with ownership comes the right to manage, regulate, and restrict access. Receiving payment for resources helps the members of the community to think of themselves as joint owners of the environment with the power to command that tenants be good stewards of the environment.

This feeling of shared ownership is one of the reasons why resource dividends tend to be so popular once they're in place, leading me to the fifth lesson: build a large constituency. One way to build a constituency is through universal rather than targeted policies. Economically and philosophically speaking, I am indifferent between programs for all people and programs for all of the poor. As long as we permanently, unconditionally, eliminate poverty, I don't care whether we do it through a targeted negative income tax or a universal basic income or any other system. But politically speaking, my observations have taught me that we are much more likely to eliminate poverty with universal programs, because universal programs build a large constituency that will protect the program from political attack. It is easy for politicians to single out the recipients of target programs, because they are relatively weak and small.

Another way to build a constituency is to be significant. Insignificant gimmicky programmes might be easier to pass, but they are also easier to cut when a different administration comes into power. If a politician proposed cutting the Alaska dividend, every Alaskan would face losing $1,000 a year or more for the rest of their lives. Whether that politician was promising a tax cut or some other spending program, they would put a universal constituency of Alaskans in the position where they would sacrifice something very significant for the uncertainty about whether the replacement will be delivered.

The British Labour Party recently failed to build a sufficient constituency to defend its Child Trust Fund. This program was intended to be universal. It was designed to ensure *eventually* that every native born British citizen would own something. But the government decided to phase in universality by granting a small 'baby bond' only to children born in or after 2002. Each child would receive a bond of £250 at birth and another of £250 at age 7. This investment would provide enough for a one-time dividend of perhaps £2000 at age 18—hardly a life-changing amount.

When the new Conservative-Liberal-Democratic coalition government came into power, the Child Trust Fund was one of the first programmes they announced that they would eliminate. The only people directly harmed by the cuts are babies born after 2010. The loss will only be a small one-time dividend, and they won't feel the loss in their wallets or be able to vote on it until 2028. It is not surprising that no significant opposition developed to the new government's plan to scrap the Child Trust Fund. The previous government did not create a program that was significant enough to a significant number of voters to make it worth defending.

The companion to building a large or universal constituency in favour of a programme is the sixth lesson: Avoid creating an opposition. Policies, such as the minimum wage and rent control, put most of the burden on one, specific, easily identifiable group who will probably fight the programme as long as it exists. Even programmes financed by broad-based income tax can create an opposition if people connect the burden of paying taxes with programmes they see themselves as unlikely to need. But the Alaska Dividend has virtually no opposition. No one has reason to feel burdened by its creation and continued existence. The yearly dividends are financed by the returns on state-owned investments. They don't cut into anyone's perceived ownership.

Of course the Alaska fund is created and continually enlarged by taxes (or "royalties") on oil drilling. But the oil companies aren't complaining. It was part of the deal they made to obtain the right to drill. Complaining about that now would be like complaining that they have to pay a price for the steel from their suppliers. It doesn't make sense to complain about what is obviously an unavoidable cost of doing business. The state owns the oil fields. Anyone who wants to drill must pay. That's just the way of the world. But notice how atypical that model is. Usually the state awards ownership of resources to corporations for free. Anyone who wants to use those resources must pay the corporations. And that's just the way of the world. Policies like the Alaska Dividend remind us that it's possible to change the way of the world.

There are times when corporations will fall all over each other to pay taxes. "Medical" marijuana producers in California are asking to be taxed so that they can be seen as legitimate businesses. Returning to the broadcast spectrum example, had the government sold it (instead of giving it away), they would have found many willing customers. Trying to impose those taxes now is more likely to create an opposition, but once we firmly establish the idea that taxes and regulations reflect community ownership and custodianship of the environment, there is little for an opposition to build around.

The Alaska dividend is not as large as it should be, but it has significant progressive effects, it works, and it's popular. Perhaps it's time to recognize it as a model we can build on.

Karl Widerquist, Morehead City, North Carolina, August 2010

This article was originally published in the *USBIG Newsletter*, vol 11, no. 57, Summer 2010

With apologies to 'Yes, Minister'

Minister: Undersecretary …

Undersecretary: Yes, Sir?

M: What did you think of the Chancellor's conference announcement?

U: Which one, Sir?

M: The one about Child Benefit.

U: Masterful, Sir.

M: I agree. Saves money, *and* it's good for our social justice image.

U: We're very pleased.

M: You are?

U: The Department, Sir.

M: How so?

U: We're going to have to collect huge amounts of information on who's living with whom. We've been doing that amongst the lower classes for years, but we'll now have to do it for the wealthy as well. That *will* be interesting. And then we'll have to connect that information with data on who's paying higher rate tax, *and* on who's receiving Child Benefit. Do you think we should ask the company which tried to computerize means-tested benefits if they can do it?

M: Shouldn't it go out to tender?

U: Of course. I'll see if anyone knows how to write a specification.

M: But do you think we need to do all that? Can't we just ask Child Benefit claimants to tell us if they've got someone in the household who's paying higher rate tax?

U: Yes, we could. But then we'll need to check up on them. So we'll need a wonderfully large fraud department, and we'll need to train some more snoopers. Now that will be *really* interesting.

M: O dear, do you think so?

U: And we'll need to collect millions of changes of circumstances every year. And we'll need a department to look after underpayments and overpayments. We don't have to worry too much about that at the moment.

M: Don't HMRC have all that trouble with tax credits?

U: They do, Sir. I'm sure we could ask them to give us lessons. … And we'll need tribunals, too. They take quite a bit of admin. So we're really very pleased; and so are the unions, because we'll be able to redeploy all the people we were going to have to get rid of.

M: I wonder if I should have a word with the Chancellor?

U: I think it was the Prime Minister's idea, Sir. And they both thought it was a good one. But don't worry. I'm sure we can manage it. I'll have a note of the extra admin. costs for you by tomorrow so you can tell the Chancellor how much he won't be saving.

M: It hope it won't be too embarrassing.

U: I'm afraid it already is *quite* embarrassing, Sir. But at least we won't need to employ consultants. We've all the all expertise we'll need in the means-testing sections of this department, and in tax credits at HMRC.

M: I suppose that's a help. … But the argument's right, isn't it? That it's wrong for low earners to be paying for Child Benefit for the wealthy?

U: Of course, Sir.

M: Do you really think so? … You don't, do you.

U: It's as good as the argument that we should stop higher rate taxpayers using the NHS.

M: O dear … You're really quite keen on universal benefits, aren't you.

U: If I can speak in a personal capacity and off the record … It's much more efficient to give Child Benefit to everyone. The wealthy are paying far more in tax than they receive in Child Benefit so there's really no problem. But the Department rather you didn't make that argument too clearly, Sir.

M: I can see that.

U: On the other hand, if you're interested, there is another strategy. You could tell them how cheap Child Benefit is to administer and suggest that they turn tax credits into a universal benefit. But only do that if you can be sure that *this* department gets to run it. Which means that you'll need to get the PM to understand, and not the Chancellor.

M: Do you think he will?

U: I think he *can*.

M: That's not what I asked.

U: I agree, Sir