Citizen’s Income newsletter

2011, issue 1

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News

Iran’s economic reforms usher in a de facto Citizen’s Income .............................. by Hamid Tabatabai

The concept of a Basic or Citizen’s Income is virtually unknown in Iran. In nearly three years of discussion and debate over the government’s new economic reforms, there has been no mention of it at all in political, academic or media circles. And yet, the country has just launched a nationwide cash transfer programme that has the hallmarks of a Basic Income in disguise. Some 60.5 million Iranians, or 81 percent of the population, have just had the first payment of 810,000 rials (about US$80) per person deposited in their bank accounts. The payments will be made every two months, involve no means testing, and are unconditional. They are also likely to double in amount over the next few years as implementation proceeds. The remaining 19 percent of the population opted out of the programme voluntarily, mainly because they do not need the money.

Remarkable as this is, the novelty does not end there. The tens of billions of dollars involved each year will not come from oil exports, or from government coffers. The transfers will be financed entirely through the higher prices the nation will henceforth pay for a variety of basic goods and services -- mainly fuel products -- that have been massively subsidised for decades. (Until now petrol has cost US$0.10 a litre and diesel fuel under $0.02.) The same applies to natural gas, electricity, water charges, and bread. Such subsidies have benefited the well-off far more than those with modest incomes (70 percent going to 30 percent of the population) and resulted in wasteful consumption of energy and foodstuffs, inadequate investment in new technology, and environmental pollution, not to mention smuggling to neighbouring countries. In order to put an end to this inefficient and unfair system, the ‘Targeting Subsidies Law’ of earlier this year mandates the gradual phase-out, over five years, of nearly all implicit and explicit price subsidies.

Editorial

Rarely has there been such an interesting time for the Citizen’s Income debate:

- The UK’s coalition government has promised a Citizen’s Pension: a nonwithdrawable, unconditional income for every citizen over pension age;
- The Department for Work and Pensions is planning a Universal Credit, which, as we explained in our response to the consultation paper 21st Century Welfare (published in our last edition) is an important step along the road to a Citizen’s Income;
- Government proposals to means-test Child Benefit mean that the importance of universal benefits is firmly on the agenda;
- and Iran has a Citizen’s Income (almost):
and it is with that most interesting piece of news that we begin this Newsletter.
to be replaced with regular cash transfers to households and various economic and social sectors. The scale of price increases are not yet known (as of mid-November 2010) but they are likely to be huge, in some cases severalfold. Official announcement is expected towards the end of November with new prices coming into effect immediately.

Interestingly enough, the universality and uniformity of cash grants came about without anybody really pushing for them or even wanting them, either from the government side that put forward the original plan, or from those opposed to the plan in the parliament who wanted it modified, if not scrapped. The intention was firmly to target the cash transfers on the less well-off sections of the population, the haggling being over whether the beneficiaries should be the lowest two, or five or seven deciles of the population on the income scale. The idea was also to pay more to those with lower incomes, in the interests of social justice. If in the end it was decided to pay the same amount to everyone who bothered to register, it was only because a massive exercise in means-tested targeting (over 17 million household questionnaires were filled out and analysed) turned into a fiasco as public protests mounted over the results. The principle of equal payment to all forced its way in because it just made sense under the circumstances. There could hardly be a more dramatic vindication of Philippe Van Parijs’s characterisation of Basic Income as a ‘simple and powerful idea’.

To be sure, Iran’s ‘cash subsidy’ (that’s the official designation) falls short of a fully-fledged Basic Income grant as commonly understood. The entitlements of all household members go to the head of the household alone, not to individual members, even if adult. There is no word on the duration of the programme, although it should in principle continue as long as Iran is able to produce oil for its domestic consumption. Means-tested targeting has not been abandoned altogether and may be resurrected if the government decides at some point that it can do a better job of targeting than its last attempt. The rights-based underpinnings of the Basic Income have no place in the current Iranian discourse on cash grants. The payments are not regarded as ‘income’ to which the citizens are entitled by right, but as another type of subsidy to compensate for the loss of price subsidies ( - though whether this makes any practical difference is an interesting question). Neither do they come anywhere close to a decent subsistence income ( - the US$200 which a family of five receive per month is about two-thirds of the monthly minimum wage). They also exclude more than two million Afghan and Iraqi refugees who have been living in Iran for years, sometimes decades, and will now have to bear the full brunt of price hikes. And last but not least, once price rises go into effect in the days ahead, and if inflation gets out of hand due to mismanagement, there is genuine fear that the whole edifice might come crashing down.

On the other hand, it might be argued that the hardest obstacles towards a national Basic Income have already been overcome. The programme is enshrined in law. The payments are universal (except for those rich enough to forfeit their right by simply not signing up). Funding is assured and looks destined to continue in the medium term. And if the reforms succeed even partially in achieving their stated objectives of rationalising consumption patterns, boosting investment and efficiency, redistributing incomes in favour of the have-nots and reducing poverty, their future should be fairly secure. The continuation of the programme will also allow its shortcomings to be identified and put right, particularly if this enormously important shift in social policy is subjected to rigorous, comprehensive and continuing impact evaluation as it unfolds and progresses in the months and years ahead.

The replacement of price subsidies by a cash transfer system of unprecedented scope and scale has placed Iran in the forefront of all countries in advancing towards a nationwide Basic Income. The fact that such a transition takes place first in a developing, Middle Eastern, Islamic state, not in a developed country in Northern Europe as many had presumed, underlines the relevance of the concept of Basic Income for a broad range of countries. The specificities of the Iranian experience should of course not be ignored. It is in large part the combined availability of domestic fuel resources and an exceptionally distorted pricing policy that has made it possible, indeed almost inevitable, for a de facto Basic Income to emerge as part of the solution. But the model may still have some relevance for other countries, in particular mineral producing nations. There may also be scope in some countries with large subsidy bills to explore the feasibility and wisdom of rerouting subsidies to fund a Basic Income, without additional taxation. Iran’s experience may hold some lessons of wider applicability, if they are properly drawn and are convincing.

For more on this subject, see Hamid Tabatabai, ‘The “Basic Income” road to reforming Iran’s subsidy system’, in Basic Income Studies, forthcoming, or contact hamtab@gmail.com.
Other news items

On the 23rd November the Daily Mail summarised the story of the 2008 financial meltdown, and Gordon Brown’s reaction to it, as told in a new book, Brown at 10: ‘Both Number 10 and the Treasury were to toy with the idea of giving £100 in cash to every British citizen. But there was no existing mechanism for doing so, which is why Brown opted instead for a temporary cut in VAT to 15 per cent.’ (Adapted from Brown at 10 by Anthony Seldon and Guy Lodge, published by Biteback on November 25 at £20. © Anthony Seldon and Guy Lodge 2010)

The Institute for Public Policy Research has published the results of research which shows that ‘in-work poverty has been on the increase over the last decade and this increase has not been dampened by the recession: The proportion of poor children living in working households increased to 61 per cent in 2008/09, up from 50 per cent in 2005/06; there are now 1.7 million poor children in working households compared to 1.1 million in workless households; and the number of working-age adults in working households increased by 200,000 in 2008/09 and 60 per cent of poor adults now live in working households’. (p.1) IPPR says of the report: ‘Analysts had thought that the trend towards a greater proportion of poverty being found among working households might be reversed by the recession, as low earners lost their jobs and swapped in-work poverty for workless poverty. However, our analysis shows that this has not happened by March 2009 and that in-work poverty continues to account for a rising share of poverty. This creates a key challenge for the Coalition Government as it sets out its plans for welfare reform and develops its child poverty strategy.’ Recommendations include: ‘Increasing hourly pay; …helping low earners to work longer hours; …providing incentives for both partners in a couple to work; and … increasing the value of benefits and tax credits for low earners’ (p.1) (Glenn Gottfried and Kayte Lawton, In-work poverty in the recession, iiipr, September 2010: www.ippr.org.uk/publicationsandreports/publication.asp?id=774)

Conference notice

Call for Papers:
Citizen’s Income Sessions
at the Social Policy Association Annual Conference 2011
4 – 6 July
University of Lincoln
Lincoln, England

The Social Policy Association’s (SPA) 45th annual Conference will be held for the second year running at the University of Lincoln’s main campus on the waterfront of Brayford Pool, from 4 – 6 July, 2011. The theme this year is ‘Bigger Societies, Smaller Governments’.

The Citizen’s Income Trust would like to organise several sessions on all aspects of Citizen’s Income, CI, including one or two symposia, (each symposium being a series of three linked papers), that aim to provide a coherent social policy in which a CI scheme provides a core, on the assumption that a CI is a necessary, but not sufficient, condition for a better society. A CI is an unconditional non-withdrawable income for every individual as a right of citizenship. It is granted on an individual basis: would be universal to everyone who has the right to legal permanent residence in the UK; is non-selective, except by age, and those with disabilities would continue to receive their disability benefits. It is delivered automatically to those who qualify. The amounts could be a Full CI or a Partial CI, and it would be financed for this exercise by a flat-rate or progressive income tax system. If a realistic but feasible CI scheme were in place, that aimed to redistribute from wealthy to poor sections of society, to reduce poverty, and to restore incentives to work, what effect might this have on the nation’s health; on alcohol and drug abuse; on the level and types of crime, and criminal justice; on household-formation, children and families; on employment, self-employment and small businesses; and what sort of housing policy would be required to ensure that poorer people were adequately housed?

To participate in one of these CI sessions, please send a title, an abstract of 300-400 words for your paper proposal, together with full contact information and affiliation, as a Word document or in rich text format, as an e-mail attachment to Annie Miller (from whom further information about CI can be obtained) at the CIT office, info@citizensincome.org by Friday, 18 February 2011. These papers will be grouped by topic
and sent to the SPA for their approval. Decisions will be conveyed after the 21st March. The deadline for full papers, in pdf format, is **Friday 10 June 2011**, for uploading onto the conference website.

All participants must register with the SPA. Further details of the conference are available on www.lincoln.ac.uk/conferences/SPA2011. Online booking has already opened. Discounted fees are available by booking by **Friday 15th April**, and reduced fees are offered for students, unwaged and retired people. This conference fee, which goes entirely to the SPA, includes coffees, teas and lunches, and a year’s subscription to the SPA. The conference starts with lunch on Monday 4 July and ends with lunch on Wednesday, 6 July 2011. The Conference Dinner will take place on the Monday evening, and there will be a Reception on the Tuesday evening.

The SPA publishes a journal *Policy World*, and members also receive copies of the *Journal of Social Policy* (CUP) and *Social Policy and Society* (CUP) free as part of their subscription. For further information about the SPA, see www.social-policy.com. If you would like to submit directly to the SPA, you must send your abstract and contact information to SPA2011@lincoln.ac.uk by **Friday 25 February 2011**.

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**Main article**

**Universal Credit: Welfare that Works**

Anne Miller reviews the Department of Work and Pensions’ white paper, *Universal Credit: welfare that works*, Cmd 7957, briefly summarising the main proposals, and assessing to what extent the changes are moving in the direction of a Citizen’s Income.

The current Social Security system comprises a contributory National Insurance scheme and a means-tested safety net (Social Assistance) based on the Beveridge Report of 1942. The original conception has become compromised over time, and the structures of the society and the economy for which they were designed then are very different now. The National Insurance and Social Assistance schemes now fail Beveridge’s basic, but still relevant, principles of ‘the right of every citizen to a minimum level of subsistence’, and ‘the need to preserve incentive, opportunity and responsibility’.

The Department of Work and Pensions’ white paper, *Universal Credit: welfare that works*, (Cmd. 7957, 11 November 2010, £19.75) identified two significant problems inherent in the current, complex, means-tested benefit (MTB) system:

1) the benefits and Tax Credits (TCs) have to be claimed from up to four different agencies, (Jobcentre Plus, and The Pension, Disability and Carers Service, both within the DWP, together with HM Revenue and Customs, and Local Authorities), involving duplicated, extensive form-filling, uncertainty about outcomes, and increased incidence of error and fraud;

2) the extremely high Marginal Deduction Rates (MDRs), arising from the interaction of the deduction of income tax and National Insurance contributions with the application of several separate tapers (benefit withdrawal rates). Some benefit claimants can find themselves facing an MDR as high as 95.95%, which acts as an inbuilt deterrent to entering or increasing paid-employment.

The white paper proposes two key improvements. The first is the replacement of four out-of-work benefits and two in-work benefits by a ‘Universal Credit’ (UC), based on similar rates to the benefits that it replaces. The four benefits that are being replaced are Income Support (IS), income-based Jobseeker’s Allowance (JSA), income-related Employment and Support Allowance (ESA), and Housing Benefit (HB). The in-work benefits are Working Tax Credit (WTC) and Child Tax Credit (CTC). The second improvement is the combination of several benefit tapers into a ‘Single Unified Taper’ of 65% on net earnings, thereby reducing the MDR to 65% on incomes below the income tax and NI thresholds, and about 76% above them, until the benefit entitlement is exhausted.

‘The Universal Credit will have a simple structure designed to:

- provide a basic income for people out of work, covering a range of needs;
- make work pay as people move into and progress in work; and
- help lift people out of poverty.’ (p.14, para 5)

The UC (which could be called more accurately a ‘Unified Credit’) consists of a basic personal amount with additional amounts for disability, caring responsibilities, housing costs and children. ‘The purpose of the personal amount is to provide for basic living costs. It will broadly reflect the current structure of personal allowances in Income Support, Jobseeker’s Allowance and the assessment phase of Employment and Support Allowance, with single people and couples getting different rates. As now there will be different rates for younger people, (p.18, paras. 19 &
20). IS, JSA and ESA entitlements currently give different amounts for lone parents by age, and for dependent children; they give premiums for family and carers, and add extra for disability, (by degree of disability, age and whether a single person or a partner of a couple).

Application is expected to be made online in most cases, and claims ‘will be made on the basis of households rather than individuals and both members of a couple will be required to claim Universal Credit … through a single application.’ (p.33, para 5). ‘When an existing award to a current benefit ends and the recipient is to be instead awarded Universal Credit, that award will be a household award. In couple households, therefore, the other member will cease to be entitled to existing benefits and will become part of the household award for Universal Credit.’ (p.37, para 20)

‘The Government is committed to providing the financial support less well-off families need to cover children’s living costs. We will therefore include fixed amounts within Universal Credit to provide for these costs. The amounts will be based on those currently provided through Child Tax Credit. They will be additional to Child Benefit. … The Government intends to keep the current principle in benefits and Tax Credits that, where parents are separated and provide shared care, only one of them will be eligible to receive the child element of Universal Credit.’ (p.21, paras. 38 and 40)

‘We assume that ordinarily with a joint claim, only one of the partners would receive the Universal Credit payment. However, we will consider the scope to arrange payments to parents in couples, so that support for children goes to the mother or main carer, as now in Tax Credits.’ (p.68, para. 10)

The ‘upper age limit for Universal Credit will be the age at which people are eligible for Pension Credit, which is currently linked to State Pension age for women and, on current plans, will be 65 for both men and women in 2018.’ (p. 22, para. 50)

The amount of the UC for those out of work will be similar to that of the replaced JSA, but the simplified system could lead to some claimants receiving their full entitlement for the first time, by receiving components of the UC to which they did not realise that they were previously entitled. Take-up is expected to increase, since it will be easier for new claimants to understand the new system, and their application will be made to only one agency, the DWP.

‘By virtue of the changes to entitlement and improved take-up, Universal Credit will have a substantial positive impact on poverty, for both children and adults: Universal Credit could lift as many as 350,000 children and 500,000 working-age adults out of poverty. This is before we consider the positive impact of more people moving into work.’ (p.52, para. 9)

‘This is a significant project, affecting 19 million individual claims and an estimated eight million households.’ (p.37, para.18)

The assessment for UC will have two stages: 1) a gross entitlement calculated by the DWP based on circumstances, and income other than earnings; 2) recipients with earnings from employment will have the earnings taken into account, and the single unified taper will be applied, (p.35). Real-time details of earnings, which will be passed by employers to HMRC, means that immediate adjustments can be made to the UC received, rather than by the former year-end adjustments for under- or over-payments. Information about significant changes of circumstances, (moving into work, becoming sick, losing a job, having a new baby, moving house), all will also normally be entered on-line.

Since the emphasis in this reform is to get people back into work, if it were found that the reduced MDRs do not provide enough financial incentive for certain categories of out-of-work recipients to seek paid employment, then conditionality (applied to all recipients as individuals) and financial sanctions will be brought into play.

‘There will be four broad conditionality groups:

- full conditionality – jobseekers;
- work preparation – people with a disability or those with a health condition which means they have limited capability for work at the current time;
- keeping in touch with the labour market – lone parent or lead carer in a couple with a child over age one but below age five; and
- no conditionality – people with a disability or health condition which prevents them from working, carers, lone parents or lead carers with a child under the age of one.’ (p.24)

The Government expects that the Universal Credit reform will reduce the number of workless households by around 300,000 within two or three years of implementation, (p.59, para. 38).
For those in work:
The single constant taper will reduce the MDR from its current varying, unpredictable, high rates, and make the outcome of entering paid employment or increasing paid work more predictable. By reducing the MDR facing low earners from around a possible 96%, as now, to about 76% at most, the Government expects to improve the work incentives of around 700,000 low earners, (p.50, para. 1b).

‘For long-term benefit recipients, small amounts of work can be a very positive way in which to refresh skills, gain valuable experience and rebuild confidence. However, small amounts of work are discouraged by the current benefits system.’ (p.43, para. 10)

For selected groups there will be a system of Earnings Disregards before the taper is applied. In Annex 3, examples are given for a couple, a lone parent and a disabled person, but actual amounts will be set closer to the date of implementation. However, it is envisaged that these Earnings Disregards will be reduced by one-and-a-half times the recipient’s eligible rent or mortgage interest support. Further, the reduction in housing costs is capped by a ‘disregard floor’. Thus, the actual earnings disregard has a possible range with a maximum value and a floor, (p. 66).

The distributional impact of UC is expected to be such that in ‘the bottom decile, the average impact of Universal Credit will be to increase net incomes by around 1.5 per cent – a cash value of £2.40 per week. In decile two this figure is around 1 per cent, which equates to more than £3.60 per week. This is before we take the impact of increased take-up into account, so is likely to significantly understimate the gains to those on the lowest incomes’, (p. 52, para.12). ‘We expect to see average net incomes reduce in the long term in only deciles 7 to 10, and even there the average reduction will be small – less than 15 pence per week in deciles 8 to 10.’ (p.52, para 14)

The simplification of the system, with the UC being administered only by the DWP, rather than HMRC and Local Authorities as with the benefits that UC replaces, reduces the amount of duplication, and thus the resultant waste and inefficiency, and also the risk of error and fraud. Similarly the single unified taper, by reducing the MDR, reduces the incentive towards fraud, and it is hoped that the use of an integrated computer system will also lead to a reduction in errors and fraud, and will free claimants from the anxiety associated with paper–based self-assessment. The DWP’s program to deter fraud, imposing penalties and recovering debt, will be renewed, (pp.43-44, paras. 13-19).

‘The greater simplicity of the Universal Credit system will lead to a streamlined administration, which we anticipate will lead to savings of more than £0.5 billion a year’, (p.51, para. 7).

Of course, there are many more details in the white paper than we have space for here.

Retained benefits
Alongside the new UC, several of the other state benefits will be retained, although some of these may be reviewed and reformed.

‘Contributory benefits, which are paid on the basis of National Insurance contributions, will be reformed but will continue to exist in parallel to the Universal Credit,’ (p.46, para. 4), ‘but in most circumstances would only be paid for a fixed period, only to facilitate a transition back to work.’ (p.46, para. 6)

With respect to the Social Fund, elements that can be automated, such as Budgeting Loans, Sure Start Maternity Grants and Cold Weather Payments, will be come part of UC. More discretionary elements, such as community care grants and crisis loans, will be devolved to Local Authorities in England and Wales, (pp. 45-47).

‘The current benefit dependent thresholds for access to a range of passported benefits (for example, free school meals and health benefits) will no longer exist. We will replace the current rules with an income or earnings-related system that gradually withdraws entitlements to prevent all passported benefits being withdrawn at the same time.’ (p.45)

The ‘government has already announced in the Budget that it will fundamentally reform Disability Living Allowance from 2013-14. … We plan to consult shortly on our proposals, which will complement the support provided to disabled people by Universal Credit.’ (p.48, paras. 17 & 20)

The government is still considering ways of changing Council Tax Benefit, and of offering childcare support.

Table 1 shows which current benefits are unified and which are retained or modified.
### Table 1: Current working age benefits and Universal Credit

<table>
<thead>
<tr>
<th>BENEFITS, 2010-11, TO BE REPLACED</th>
<th>2010-11 AGENCY</th>
<th>RATES 2010-11</th>
<th>UNIVERSAL CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Support</td>
<td>DWP</td>
<td>Over age 25:</td>
<td>)</td>
</tr>
<tr>
<td>Income-based JSA</td>
<td>DWP</td>
<td>Single £65.45 pw</td>
<td>) Basic personal amount</td>
</tr>
<tr>
<td>Income-related ESA</td>
<td>DWP</td>
<td>Couple £102.75 pw</td>
<td>) + extra for:</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>HMRC</td>
<td>Carer £30.05 pw</td>
<td>disability</td>
</tr>
<tr>
<td>Working Tax Credit</td>
<td>HMRC</td>
<td>£2850 pa for 1st child</td>
<td>caring responsibilities</td>
</tr>
<tr>
<td>Housing Benefit</td>
<td>Loc Auths</td>
<td></td>
<td>children</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>housing costs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RETAINED non-UC benefits</th>
<th>RETAINED non-UC benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Disability Living Allowance</td>
<td>DWP</td>
</tr>
<tr>
<td>* Child Benefit</td>
<td>HMRC</td>
</tr>
<tr>
<td>Carer’s Allowance</td>
<td>DWP</td>
</tr>
<tr>
<td>Council Tax Benefit</td>
<td>Loc Auths</td>
</tr>
</tbody>
</table>

| Social Fund: for emergencies, Sure Start Maternity Grant, Cold Weather Payments, Crisis Loans Community Care Grants | DWP | Elements that can be automated to become part of UC. More discretionary elements to be devolved to Local Authorities |

<table>
<thead>
<tr>
<th>* Bereavement benefits National Insurance Benefits:</th>
<th>DWP</th>
<th>) under25, £51.85 pw</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Contribution-based JSA</td>
<td>DWP</td>
<td>over 24, £65.45 pw</td>
</tr>
<tr>
<td>* Contribution-based ESA</td>
<td>DWP</td>
<td>£79.15 pw.</td>
</tr>
<tr>
<td>* Statutory Sick Pay</td>
<td>DWP</td>
<td>90% of av.gr. weekly earnings, capped after 6 weeks at £124.88 pw. maximum. 90%, but capped for whole 39 weeks</td>
</tr>
<tr>
<td>* Statutory Maternity Pay, paid for 39 weeks</td>
<td>DWP</td>
<td>Will be reformed.</td>
</tr>
<tr>
<td>* Maternity Allowance</td>
<td>DWP</td>
<td>To be administered as with UC.ESA will be paid for only 1 year</td>
</tr>
</tbody>
</table>

| Passported benefits * Industrial Injuries Disablement Benefit | DWP | Current rules to be replaced and entitlement gradually withdrawn |

*= non-means-tested benefits (that will not be replaced by UC).

Source: DWP, *Benefit and Pension Rates*, BRA5DWP, April 2010

**How can one assess whether the proposed changes to the benefit system are moving in the right direction?**

Since a Citizen’s Income (CI) scheme is a set of instruments rather than a program of policies, (although we believe that the instruments that comprise the CI will lead to benign outcomes), one can assess a policy proposal by comparing the features of that proposal with those of a CI scheme. Thus, in Table 2 below, the main features of any benefit and income tax system are listed in column 1, the elements of the current system that it is proposed be replaced are detailed in column 2, and the key aspects of the DWP proposal is given in column 3, while the main features of a CI are indicated in column 4. An examination of the table reveals that, although the DWP’s proposed scheme demonstrates a small but important shift in the right direction, which we welcome, many features of the current benefit system are retained.
### TABLE 2: To compare the DWP’s proposed scheme with a Citizen’s Income

<table>
<thead>
<tr>
<th>COLUMN 1</th>
<th>COLUMN 2</th>
<th>COLUMN 3</th>
<th>COLUMN 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT SOCIAL ASSISTANCE BENEFITS: some to be replaced.</td>
<td>DWP PROPOSALS ref: Universal Credit: welfare that works. A UNIVERSAL CREDIT transition Oct 2013-Oct 2017</td>
<td>CITIZEN’S INCOME SCHEMES</td>
<td></td>
</tr>
</tbody>
</table>

#### STATED PURPOSES:

| | 1. simplify system, reducing complexity, uncertainty, errors, fraud & administration costs: 2. reduce MDR and thus paid-employment disincentives, helping to lift out of poverty those who are o-o-w and those on low wages. | redistribution of income; help to reduce poverty, grant financial autonomy, and restore incentives to be in paid employment. |

#### FEATURES:

<table>
<thead>
<tr>
<th>BENEFIT UNIT</th>
<th>Household basis, ie. couples or individuals</th>
<th>Individual basis only</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELIGIBILITY</td>
<td>Means-testing of people who are o-o-w, &amp; those with low earnings.</td>
<td>Working-age households</td>
</tr>
<tr>
<td>Universal for all permanent residents: adults &amp; children.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SELECTIVITY</td>
<td>Extensive, often based on frequently changing circumstances</td>
<td>Based on current benefit and TC rules: ie different amounts for singletons and for partners of a couple, and less for younger people.</td>
</tr>
<tr>
<td>EXTRA SUPPORT</td>
<td>Disability, Dependents, Children, Housing.</td>
<td>Disability, Caring responsibilities, Housing costs, Children, (&amp; retaining CB).</td>
</tr>
<tr>
<td>DELIVERY</td>
<td>The credit to be paid by DWP to the household member making the application.</td>
<td>Regular automated CI to each adult, &amp; responsible parent of dependent child.</td>
</tr>
<tr>
<td>BENEFITS</td>
<td>IS, JSA, ESA, HB, WTC, CTC.</td>
<td>* IS, JSA, ESA, HB, WTC and CTC replaced by an integrated benefit of a similar amount.</td>
</tr>
<tr>
<td>INCOME TAX STRUCTURE</td>
<td>Tax expenditures subsidise taxpayers</td>
<td>Income tax and NI contributions deducted first.</td>
</tr>
<tr>
<td>TAPERS &amp; MARGINAL DEDUCTION RATE, (MDR):</td>
<td>Interaction of several tapers, for IS, JSA, ESA, CTC, WTC, HB and CTB, and income tax and NI deductions, leading to MDR of up to nearly 96 %, (regressive).</td>
<td>* A unified constant taper of 65% on net earnings, leading to a MDR of 65% on incomes below the tax &amp; NI threshold, and of 76% on higher incomes until benefit entitlement is exhausted. (Still regressive).</td>
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It is obvious from the white paper that the whole impetus for these reforms is to get people off benefit and back into paid work. The government hopes that the reduction of the MDR from nearly 96% for some claimants, to 65% for those with incomes below the income tax and National Insurance thresholds, and about 76% for those with incomes above these thresholds, will be a sufficient incentive for many who are out-of-work to seek work, and those suffering from in-work poverty to increase their earnings.

A single person working 35 hours per week, on the National Minimum Wage of £5.93 per hour, would earn a gross wage of £207.55. The first £124.18 will attract an MDR of 65%, yielding a net amount of £43.46, and the remaining £83.37 will be subject to 76%, leaving £20.01. The net earnings from 35 hours work will be a total of £63.47, representing an average net wage of £1.81 per hour, with an average MDR of 69%. It is not surprising that a stiff regime of conditionality and sanctions, and thus of expensive monitoring, has to be in place to enforce this incentive.

These MDRs are extremely high, especially when compared with an MDR of 42% (40% income tax + 2% NI contribution) for higher rate tax-payers. This makes the system highly regressive overall.

Throughout the white paper, reference is made to supporting claimants to participate fully in society, by which is meant, of course, participation in paid work. The equating of society with paid-work reveals the government’s attitude to society, which does not augur well for David Cameron’s idea of The Big Society.

The household basis for couples as the benefit unit is retained. A joint application has to be made, and the benefit is paid to one partner. An extreme case occurs when a spouse, usually but not exclusively a woman, with caring responsibilities for children or disabled or otherwise infirm people, is financially dependent on a partner who is wealthy enough not to be eligible for a UC. As the Social Security law stands, cohabiting partners of all categories are required to support each other, but it could be ‘in-kind’, and does not have to be in the form of cash. However, despite ubiquitous references to ‘the common purse’, a financially dependent partner even in a formal union does not have legal rights to an income from the wealthier partner. The redress for this is an important part of a Citizen’s Income. A further aspect of this repressive attitude to couples is that they receive less than that of two single people, thus further penalising them, and sometimes driving them apart.

This ‘Universal Credit’ is not universal, as it does not apply to all members of the population who have the legal right to permanent residence in the UK. Paradoxically, if a universal CI system were adopted, and income tax expenditures (which subsidise the richer part of society) were rescinded, then the MDR could have been much less, certainly no more than 50%, for most people.

These changes detailed in the white paper, though welcome as far as they go, are not radical, since they merely remove some of the accretions that have been bolted on to earlier versions of the system, usually in the name of radical reforms. It is still the same non-universal, means-tested system, with claimants lumped together as households, thus retaining the concept of a ‘financially dependent adult’, and in which a significant section of society is excluded on the basis of her/his relationship with a wealthier person, from whom they have no rights to an income. Couples are still penalised, and the system can add to their problems, driving them apart. Too many adults and children will still live in poverty. As is well known, means-tested benefits almost always involve inherent high disincentives to work, which in turn lead to the...
imposition of conditionality and sanctions. The system is still regressive, and tax expenditures still subsidise tax-payers. It is a pity that the opportunity for really radical new thinking, in the form of a Citizen’s Income, presented by the need to reduce the public deficit drastically, was not seized, to try to rectify many of these other aspects of the current system.

Reviews

Hartley Dean, Understanding Human Need, Policy Press, 2010, xvii + 217 pp, pbk, 1 84742 189 0, £21.99, hbk, 1 84742 190 6, £65

The concept of need is at least as complex as the human experiences to which we apply it, and this book brings some valuable order to the ways in which the term is used by policy makers and social scientists.

The first substantive chapter (ch.2) understands ‘inherent’ need as needs which belong to every human being simply by virtue of our being human – and straightforwardly we are into a variety of ways of understanding need because the different ways in which we understand our human nature result in different understandings of inherent need. If we understand ourselves as utilitarian subjects then our needs will be understood as objective interests; if we understand ourselves as market actors, then our needs will be understood as subjective preferences; if we understand ourselves as psychological beings, then our needs will be understood as inner drives; and if we understand ourselves as members of a species, then we will understand our needs as (evolved) constitutive characteristics. Social policy is about the meeting of need, so how we understand need matters, which means that how we understand ourselves as human beings matters rather a lot.

Whilst Dean recognises that all need is to some extent interpreted, he gives chapter 3 to ‘interpreted need’ as a concept: that is, to understandings of need drawn from our experience of society and its culture. All understanding of need is culturally specific, so, for instance, in our consumer society consumerism generates our understanding of need. Social policy relates to need as we understand it, and so to normative (i.e., expert-defined), felt, expressed and comparative needs, with their respective discovery methods: for instance, participatory methods for discovering expressed needs.

Chapters 4 and 5 discuss poverty in terms of unmet need, inequality as a risk that some people’s needs might not be met, social exclusion as exclusion from needs satisfaction, capabilities as the extent to which people are free to meet their needs, and ‘recognition’ as the extent to which people’s needs are recognised. A tension underlying each discussion is that between the individuals’ autonomy and our interdependency within society, and the related question: To what extent are my needs purely my own, and to what extent generated by and understood within our societal relationships?

In this context Dean explores in chapter 6 what he clearly regards as a crucial distinction: that between ‘thin’ and ‘thick’ needs. Whilst a variety of expressions are given to this distinction, underlying all of them is the distinction between need as individual and need as social; and much of the rest of the book is taken up with exploring this distinction through discussion of differing theoretical standpoints.

Chapter 7 develops a fourfold taxonomy of need constructed from the two main distinctions so far discussed: that between inherent and interpreted needs and that between thin and thick needs. Each resulting quadrant gives rise to a different social policy approach:

A taxonomy of needs-based approaches (p.120)

Chapter 8 explores the ways in which needs are understood to imply rights. Dean develops another fourfold taxonomy based on the distinction between ‘doctrinal’ (or normative) rights and claims-based (asserted) rights and the distinction between understanding ourselves as autonomous subjects (thin needs) and as potentially vulnerable and therefore interdependent subjects (thick needs). Each quadrant generates rights understood in particular ways: for instance, doctrinal rights and an understanding of the person as vulnerable generate citizenship rights based on needs understood as universal. Dean then shows how each of Esping-Andersen’s welfare regime types...
prefers a particular category of rights: liberal welfare regimes selective rights, conservative regimes protective rights, social democratic regimes citizenship rights, and all of them conditional rights: and he offers a detailed critique of the ‘welfare citizenship’ to which social democracy has given birth.

In the final chapter Dean suggests that ‘our humanity depends … on social engagement and self-fulfilment’ and that this implies universal and unconditional approaches to social policy and the meeting of both particular and common needs. His particular policy proposal is local social rights councils, but it could equally well have been a Citizen’s Income, which does of course meet both particular and common needs as well as promoting both social engagement and self-fulfilment.

The book contains summaries and questions for discussion at the end of each chapter, and a reading list at the end. There is an index, though unfortunately a flawed one: Bill Jordan is frequently quoted and is in the index; Fitzpatrick is also frequently quoted but isn’t. Basic/Citizen’s Income gets a brief mention on p.136, but you wouldn’t know that from reading the index.

But the index is a minor blemish on an important book: important because it lays an essential foundation for any future discussion of social policy and thus for any future discussion of universal benefits.


Tony Blair’s and New Labour’s ‘Third Way’ expected contracts in free markets, detailed targets in the public sector, and close regulation of our collective life, to achieve social ends. Jordan’s thesis throughout this carefully argued and quietly passionate book is that means need to cohere with ends: that is, that social and moral means are needed if moral and social ends are to be achieved; and that therefore individualistic market-oriented policies will struggle to deliver a sustainable and moral society. Under New Labour ‘the collective processes at work in every society’ were submerged beneath an emphasis on ‘individuals, their choices, aspirations, and achievements’. What is now needed is a return to a social order understood as ‘a moral order of interdependent members giving each other mutual recognition’ (p.17).

In the first part of his book Jordan outlines institutional arrangements which would enable ‘justice, equality,
Cusworth’s first, introductory, chapter understands parents’ employment patterns in terms of ‘their impact upon children’s outcomes in several ways: through the effect on household income and socio-economic circumstances (economic or financial capital); through the provision of cultural norms and expectations (cultural capital); and through family relationships and interaction (social capital). Parents’ qualifications (human capital) also play an important part, and are related to levels of both economic and cultural capital’ (p.3). The second chapter studies this ‘capital’ approach and also the social, policy and theoretical context of this important field of study.

Chapter 3 outlines the research method: cross-sectional and longitudinal data collection and analysis, on employment patterns and outcomes for children, using existing data sets. The following three chapters present analyses of the data on young people’s educational and emotional wellbeing. Both workless households and lone parents in full-time employment are shown to have negative effects on young people’s emotional wellbeing; parental employment patterns and having a mother in part-time (but not full-time) employment correlate with lower truancy rates; and, interestingly, maternal employment patterns make no difference to achievement at GCSE whereas paternal unemployment has a negative effect. As expected, parents’ educational achievements correlate closely with their children’s.

In the final chapter, Cusworth concludes that ‘the evidence provided by this research tentatively supports the policy of encouraging paid work for all, including mothers, although part-time as opposed to full-time maternal employment might offer young people greater protection against poorer emotional well-being. Parental employment which guards children against the experience of household worklessness would appear to be overwhelmingly positive’ (p.195). ‘In moving away from a climate where any employment of a mother which separated her from a young child was frowned upon, there should not be a swing to a situation where full-time continuous employment is regarded as ideal or compulsory’ (p.197).

We would add to Cusworth’s list of ‘questions raised and future work’: Which feasible reforms of the tax and benefits system will incentivise ‘options for mothers (and fathers) to spend more time in the self-provision of childcare’ (p.196); and which will incentivise the flexible part-time parental employment which Cusworth’s study shows to be so important for children’s wellbeing?

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Harry Shutt begins with a diagnosis of the evils which led to the financial crisis of the last two years, and particularly the global shift away from capital intensive manufacturing and towards service industries, and thus towards fewer opportunities for productive investment and to pension and other funds seeking increasingly speculative investments (which Shutt correctly terms gambling). Loans looking for lenders meant increasingly risky loans and the eventual collapse of the sub-prime mortgage market in the United States.

Shutt describes the banks bail-out as ‘corporate welfare’ (p.31), outlines the effects of the austerity measures which the bail-out has made necessary, and suggests that ‘it can scarcely be denied that the combination of extreme monetary laxity, rapid fiscal expansion and massive state subsidy of banks and other private-sector businesses constitutes a total negation of the principles of orthodox financial management as traditionally espoused by capitalist market economies. At the same time the pretence that such an unorthodox strategy could be effective in reviving growth in a situation where overborrowing by consumers had already brought the global economy to its knees bespeaks an even more total detachment from reality.’ (p.46)

A major long-term threat to classical capitalism is the devaluation of both capital and labour: capital investment in internet-based media is rarely profitable because it is difficult to demand payment for information which can be so easily shared; and technological change means that the ‘global demand for labour is in long-term decline’ (p.56). Insecurity for both investors and workers is the result. Governments’ concern to maintain growth leads to government policy designed to maintain corporate profits – for instance, the privatisation of state enterprises and assets – in a context in which the increasing costs of the scarce resources of a finite planet and growing public resistance to consumption increasingly constrain growth. An important source of the funds with nowhere to go is the private pensions industry, which Shutt compares unfavourably with the state pay-as-you-go pension system: a system which he rightly suggests doesn’t suffer from a rising dependency ration between retired workers and active workers because...
productivity is rising. The pharmaceutical, nuclear power and arms industries are castigated as yet more artificial receptacles for investment capital. The profits system, far from allocating resources efficiently, misallocates them.

Shutt’s proposed replacement economic model abandons both growth and the ‘work fetish’ (p.99) as priorities and instead aims ‘to provide people with what they need and want to the maximum extent permitted by the available resources’ (p.108). The policy instruments proposed are greater government control over taxation and capital movement, increased non-profit and state ownership of enterprises, restriction of working hours, and a Citizen’s Income. The final chapters recommend ‘cooperation, creativeness, equality’ and ‘deepening democracy’ and ask whether the current crisis might lead some world leaders to seek a more radical alternative to the status quo.

In the final chapter Shutt returns to an anti-globalisation agenda which emerges at various points in his book, and I wonder whether here he has not sufficiently examined the options. National boundaries are contingent realities, and there is no more reason for recommending a new economic order founded on the nation state than a global one. What surely matters is consistency, e.g., the free movement of capital within Europe needs to be matched by a European tax regime and a European Citizen’s Income. Further exploration of the alternatives would be welcome.

Many of Shutt’s readers will want to argue with particular points, but it is surely more important to experience the general direction of his argument. Whilst his agenda appears radical, he doesn’t in fact attempt to dismantle capitalism. In spite of the rhetoric, what he’s done is to show how capitalism can survive in a new context. One of those contexts is globalisation, and we look forward to Shutt showing how his prescription could work in an increasingly interconnected world.


This reader is an inspiration, and we are hugely in the debt of the Policy Press and of the book’s section editors for the comprehensive nature of this collection of excerpts from Peter Townsend’s writings.

For sixty years Townsend did more than anyone in the UK to gather evidence in the cause of social change, to treat social policy sociologically, to define poverty as relative poverty, and to found institutions which would have a long-term impact on social policy: particularly the Child Poverty Action Group and the Disability Alliance.

Few books have had as much of an impact on this reviewer as Townsend’s 1979 Penguin *Poverty in the United Kingdom: a survey of household resources and standards of living*. No collection of extracts could do justice to its 1,200 pages of evidence and analysis, but those printed in this reader are carefully chosen and correctly begin with the seminal passage:

‘Poverty can be defined objectively and applied consistently only in terms of the concept of relative deprivation … The term is understood objectively rather than subjectively. Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities’ (quoted on p.191).

The most important pages in a reader are the index, and this reader has a good one. Reading it will reveal the breadth of Townsend’s interests, and using it will reveal the grasp he had of the detail of a wide variety of policy fields. Entries on ‘means-tested benefits’ and ‘universal welfare’ will take readers of this *Newsletter* to excerpts which will be of particular interest:

‘One problem, which has not been examined by successive governments during the past two decades [ - this was written in 1999] is the effect of specific policies on trends in the inequalities of living standards and, hence, health. The biggest influences on structural trends need to be identified and explained. In the United Kingdom these influences include … restraints on the value of child benefit … and the substitution of means tested benefits for universal social insurance and non-contributory benefits for particular population categories such as disabled people’ (quoted on p.398)

‘… the more conditional and even punitive forms of selective social assistance are counter-productive for social cohesion, well-being and
productivity; therefore social security schemes involving entire populations and categories of the population … i.e., social insurance and tax-financed “universal” group schemes, deserve priority, even if for reasons of limited resources they have to be phased in by stages” (quoted on p.575).

If I have one negative criticism of this reader it is that it contains no Townsend bibliography. A separate bibliography is mentioned (but not referenced) in the introduction, but that won’t help readers of this volume. At least a list of Townsend’s books should have been included.

But having said that, this reader is everything which students of social policy would have asked for. It contains separate sections on sociology and social policy, the history of the welfare state, poverty, inequality and social exclusion, health inequalities and health policy, older people, disability, and social justice and human rights; within each section it provides a broad diversity of material from different periods of Townsend’s career; and it quotes from little-known and sometimes inaccessible articles as well as from Townsend’s better known books.

Above all, this reader is an inspiration to us to collect and publish evidence in the cause of social change – and that, I’m sure, is the legacy for which Townsend would have wished.

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**Viewpoint**

**Could the money system be the basis of a sufficiency economy?**

by Mary Mellor

In my book The Future of Money I argue that the money system could be a possible mechanism for achieving a socially just, democratically administered, sufficiency economy — an economy that can meet people’s material needs to the minimum necessary to enable a high quality of life for all. A major proviso is that even radical reform of the money system will not eliminate private profit-oriented ownership and control of economic resources, but it could provide a stepping stone to a more ecologically sustainable and socially just society. While money can be a source of greed, alienation and exploitation it is also a symbol of social trust between people. ‘Sound money’ is a product of society, not of market forces. When we say people trust in money they are trusting in the organisations, society and authorities that create and circulate it, other people, traders, the banks and the state. What has also become clear in the recent financial crisis, is that the only mechanism that stands behind the current money system is the state as representing the collective economic resilience of the population.

Classical economics tells us that money emerged spontaneously out of barter markets when a precious commodity (gold/silver) was adopted as a medium of exchange. This became embedded in coin and represented by paper. This has been discredited by the fact that banking and accounting emerged thousands of years before precious metal coinage and coin value rarely equated to precious metal content. The origin of money is much more social. Money in all its forms has been issued or administered by fiat, that is, issued and guaranteed by an authority, such as a powerful leader, an office-holder or a religious organisation. Historically, states or other monetary authorities have used their power to establish the circulation of money as accounting records or as physical tokens such as clay tablets, tally sticks or coin by ‘buying’ goods and services. Why should people give up their labour, goods or resources for a worthless accounting record, tablet, stick or coin? Because the ‘money’ must be returned as tax. Even people not directly subject to state ‘purchase’ are also required to pay taxes, so the money-tokens must circulate widely in the economy. Taxation must also not reclaim all the ‘money’ otherwise there would be no mechanism for general circulation. The state must therefore always be in deficit, an important lesson for today’s advocates of a balanced budget.

In modern economies, the state’s historic monetary role has been virtually obliterated. Money has been privatised through the issue of money through banks as debt, so much so that states have to borrow money themselves.

The modern banking system brings together private banking in relation to trade and the currency-creating powers of the state. Early commercial bankers issued their own credit notes, but as money issue and banks became more regulated, the money the banks issued was declared legal tender, that is universally recognised money authorised by the state. It is this combination of the public nature of money (national tender) and the privatisation of its issue and circulation that has created a money system based on private profit and public responsibility. As banks are issuing new money designated in the national currency, they are issuing what is, or should be, a national resource. Certainly they are issuing money that carries a public liability as is clear from the recent financial crisis. Even when money was deposited...
within another banking system (as in the case of the Icelandic banks), default became the responsibility of the British state. Equally, the Icelandic people, through the state, were forced to take on financial liabilities that were created by their private sector banks. If conventional economics and neoliberal ideology tells us that money is a private matter, the stampede of people towards a government guarantee of bank deposits in the event of default tells us otherwise.

Like states, banks issue money by fiat, out of fresh air. Although it is widely assumed that banks use savers’ deposits to make loans, albeit on an expanded fractional reserve basis, this does not explain where the savers got their money from in the first place. As with state money, bank money must be issued before it is saved. The **first loan must come before the first deposit**. Far from money representing prior market activities as the barter theorists claimed, it is the prior issuing of bank credit that is essential to bringing profit-seeking activities into being. Issuing money as debt also demands constant growth and expansion of the economy. Capitalism would collapse if everyone paid their debts, or if no further debts were taken out. Anyone who takes on debt is therefore creating new money. Those who take on debt are also making vital choices about the direction of the economy and, as the financial crisis reveals, those choices can rebound on society as a whole.

The money system is a national resource that should not be appropriated for private profit. This is important because the ability to issue money in a society creates the ability to define what is to be seen as valuable (in money terms). Letting the market harness the allocation of money has prevented the recognition of value created by the environment, non-market activities and public investment. Allocating money to citizens as of right or to public investment would give a completely different message about what is important in society. Instead of money circulating through the market to create ‘wealth’ which is then taxed (under much protest) for public use, **public benefit** would be the basis for the allocation of money. Administration via a public money system would avoid both the rigidity of a command and control economy and the speculative exploitation, waste and inequality of a capitalist market.

Security of money allocation for consumption and production would remove much of the need to undertake unnecessary work and enable people to be confident of a sufficiency of material goods with more emphasis on the quality of life. Overall priorities would also put public welfare first (hospitals, education, transport) which would make people feel more secure about their future. This would mean they did not have such a need to accumulate money savings. The problem with aiming to achieve future security in money terms is that there is no way people can know what their money will buy in the future. While sufficiency can be calculated in real terms (how much bread will I need?), there is no basis for sufficiency in money terms (what will bread cost in thirty years’ time?). Returning the money system to the public would be an invaluable step towards creating a socially just and ecologically sustainable sufficiency economy.

You can read an extended version of this paper including references at: www.paecon.net/PAEReview/issue54/Mellor54.pdf

Mary Mellor is Emeritus Professor at Northumbria University. Her most recent books are *The Future of Money: From financial crisis to public resource* (Pluto 2010) and *The Politics of Money* (Pluto 2002) (with Frances Hutchinson and Wendy Olsen)

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**An apology relating to ‘With apologies to Yes, Minister’**.

We apologise that the author of the article ‘With apologies to Yes, Minister’ in issue 3 for 2010 hadn’t realized that in 2003 the administration of Child Benefit had been transferred from the Department for Work and Pensions to Her Majesty’s Revenue and Customs.

We have rewritten and republished the dialogue.

We are grateful to our informant for pointing out the mistake.
With apologies to ‘Yes, Minister’: amended

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: Revenue and Customs is very pleased, Sir.

M: How so?

U: We’re going to have to collect huge amounts of information on who’s living with whom. The DWP has been doing that amongst the lower classes for years, but we’ll now be able 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 ask the DWP to train some snoopers for us. 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. The Child Benefit department doesn’t have to worry too much about that at the moment.

M: Don’t we have all that trouble with tax credits?

U: We do, Sir. We like trouble. It gives us lots to do. 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’ll have most of the expertise we’ll need in the tax credits department.

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 we would 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 both tax allowances and the Secretary of State for Work and Pensions’ Universal Credit into a universal benefit and give it to us to administer. Employment incentives would improve, the labour market would become more flexible, there would be more people in employment and self-employment, and we could then take over what was left of the DWP.

M: Do you think the Chancellor would understand that?

U: I think he can.

M: That’s not what I asked.

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