Citizen's Income *newsletter*

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Editorial

Kate Green MP writes in the Winter 2010/11 edition of the *Fabian Review*:

> 'In Labour's current policy review, I'll be arguing that universal benefits have an important role to play at every stage of the life course. Reinstating universal child benefit at the same rate for every child, and supporting the creation of a universal pension – based on participation, not just financial contribution – should form the bedrock of our approach. And more universalism should be accompanied by a more progressive tax system, building on the 50p top tax rate.

We welcome the fact that in the Labour Party there is now open debate about the future direction of tax and benefits policy.

We particularly welcome the fact that a policy suggestion from the Government doesn't generate an automatic objection from the Opposition. Steven Webb, as Minister of State for Pensions, has proposed a universal pension. It is a pleasure to see the idea espoused by a Labour member of the Work and Pensions Select Committee. We are also of course pleased to see Kate Green calling for Child Benefit to remain universal. This is currently *not* Government policy, but we hope that it soon will be again.

What we now require is open debate, both in the Coalition Government and in the Labour Party, of reforms to follow the establishment of the Universal Credit. To individualise the Universal Credit would individualise and simplify the whole tax and benefits system. To remove the taper, at the same time as turning Income Tax allowances into cash payments, would give us a Citizen's Income, and the administrative simplicity and employment incentives which would be the result.

News

Pro-BI book becomes best-seller in Germany.

by Conall Boyle

1000 Euro for everyone. Freedom. Equality. Basic Income is the title of a new book (*€1.000 für Jeden: Freiheit. Gleichheit. Grundeinkommen* in the original) by Götz W. Werner and Adrienne Goehler, published in August 2010. According to the Amazon.de website it is currently in place No. 1,563 of all books being sold, but in the category 'Social Justice' it is No. 1. It is clearly of considerable significance to find so much interest in a Citizen's Income in a European country.

An interesting review of this book appears in the January Review of Books in *Sp!ked*. The first half of the review is factual and informative and is reproduced below (with permission from Sp!ked. You can read the original dated Friday 28 January 2011 at www.spiked-online.com/index.php/site/reviewofbooks_article/10136/)

The idea that the state should give everyone a basic income has seized the imagination of Germany's middle class and politicians.

by Johannes Richardt (head of PR and communications at *Novo Argumente* publishing house)

At the moment, more than €1 trillion flows into the more or less state-controlled German welfare complex every year. Representing one third of German GDP, this vast amount of money covers every social benefit, from child allowance to health insurance. If the economic stats were not striking enough, of the 80 million people living in Germany only 40 per cent earn a wage. So a large proportion of the population is dependent either partially or wholly upon the state.

But the German welfare state does not just provide a financial safety net. It also seeks to regulate the behaviour of benefits claimants through various forms of lifestyle intervention, such as dictating how much claimants should be allowed to spend on cigarettes. In this regard, the so-called Hartz IV legislation, passed in 2005 by the then ruling Green-Social Democrat coalition, is important. Named after its originator, Peter Hartz - then a social democratic trade unionist and manager of part state-owned Volkswagen before being imprisoned for embezzlement in 2007 - Hartz IV effectively revised the status of the unemployed. They were no longer citizens in need of assistance while out of work: they were deemed welfare dependent. They were no longer people fallen on hard times, but fully capable of getting back into work: they were psychologically dependent upon welfare and incapable of getting back into work.

Hartz IV not only produced a new form of state dependency; it also sought to prepare these damaged citizens for work. To this end, a new sector of senseless and unproductive labour for about 1.5 million of the unemployed benefits claimants was created (thus removing them from unemployment statistics). Under the pretext of empowering the unemployed by psychologically preparing them for the labour market, these benefits claimants are forced into absurd and degrading activities run by highly subsidised companies with Orwellian-sounding names like *Neue Arbeit* [New Work]. One example of this absurd work-for-work's-sake philosophy is the Toys Company. In more than 60 factories around Germany, the formerly unemployed people work for an extra €1 per hour on top of their out-of-work benefits, recycling second-hand toys for poor children. One task is to check the completeness of second-hand puzzles. 'The record for completing the 5000-piece puzzle is just 10 days', explained Toys Company's manager, 'although unfortunately we found out that three pieces were missing'. Götz Werner and Adrienne Goehler refer to this example in their new book *1000 € für Jeden. Freiheit. Gleichheit. Grundeinkommen.* (€1000 Each. Liberty. Equality. Basic Income.) They argue for a new model of state welfare distribution which would replace the bureaucratic, behaviour-management regime of Hartz IV with one based on a simple premise: the state would pay everyone a basic income.

At first sight their central idea of a basic income for everybody seems quite charming: Every citizen gets €1,000 from the state every month from cradle to grave. As Werner, the billionaire founder of a drugstore chain, and Goehler, president of the Hamburg Art Academy, note, €1000 represents more than just a living wage. They argue that it also enables people to participate in the cultural life of society.

Because this would be an amount that every person would be legally entitled to, there would be no more degrading means tests and interventions in the lives of benefits claimants. The welfare bureaucracy as Germans know it would be redundant: the unemployed would be freed from doing compulsory labour promoted by the state, and the rest of society would be freed from the imperative of wage labour provided by the market. Income would be separated from work. As one would not need to sell one's labour in order to guarantee an income, the authors argue, people could choose their line of work, for whom they want to work and for how long. This would lead to a new society in which self-realisation, creativity and compassion replace the existential fears created by the current rat race.

The German political class is partially sympathetic to the idea of a basic income. Hence, with the exception of the Social Democratic Party (plus trade unions), all parties represented in parliament have been discussing various models of basic income at some point in the past few years. For instance, in its party programme, the liberal Free Democratic Party calls for a *Bürgergeld* (Citizen's Income), an amount paid out whenever necessary but low enough to maintain the incentive to work. Elsewhere, the Greens call for a *Bedarfsorientiere Grundsicherung* (needs-based basic provision), and even within the conservative Christian Democrat Party there is support for a *Solidiarisches Bürgergeld* (solidarity citizen's income).

… Support for the idea [also] comes from the German middle class. Campaign groups with names like 'Freedom Instead of Full Employment' and 'Federal Agency of Income' have emerged, advertising their ideas on various websites, in films and at events and demonstrations. It is important to note that support for a basic income does not come from unemployed and poorly educated low-wage employees. It comes from privileged and educated young professionals with middle-class backgrounds who, working in poorly-paid, insecure positions in the media and cultural sector, hope for an unconditional basic income to make their lives that little bit more secure. This is no struggle for abundance for all. For these metropolitan types, a basic income promises security, opportunities for self-realisation and psychological well-being.

It is to the fears and prejudices of this post-material milieu that the book *€1000 Each* speaks. In this way, the book exemplifies the rampant social pessimism so prominent in contemporary Western societies. The authors describe the insecure working conditions of the 'creative class', surviving on short-term contracts and project work, as the future for a society that has given up on the goal of well-paid and meaningful work for everyone. According to the authors, only a minority of people will earn their money in secure, long-term work. The rest of us will be left to the fate currently endured by the creative class, the 'vanguard of precarious conditions'.

Referring to American sociologist Jeremy Rifkin's 1995 book *The End of Work*, Werner and Goehler argue that the advance of globalisation, automation and rationalisation has led to a post-industrial society in which production can no longer serve as the basis of societal wealth. Economic growth, they assert, 'is a dead duck'. Instead, Werner and Goehler urge us to focus on creativity as 'the only remaining, sustainably exploitable resource of the twenty-first century'. This is why they argue for a basic income. Because to tap into this resource of creativity, while avoiding the social unrest that will come with the shortage of constant, paid work, requires everyone to be accorded a level of material security.

This is where the first half of the review ends. The second half of the review is highly critical of the whole idea of a Citizen's Income: **'**Basic income, low aspiration: The idea that the state should give everyone a basic income has seized the imagination of Germany's middle class and politicians. Their enthusiasm is testament only to the poverty of their ambition' is the full title of the review. In the next issue of the *Citizen's Income Newsletter* these anti-CI views will be reproduced and critically examined.

Further news items

The **Institute for Fiscal Studies** has published *Universal Credit: A Preliminary Analysis*. Their researchers write: 'Our empirical analysis in Sections 4 and 5 illustrates well the constraints all governments face when contemplating radical welfare reform. Universal Credit will strengthen financial work incentives for some, as intended, but weaken them for others. In general, incentives to work will be strengthened for the main earner in a family who works part-time or has low earnings, and will be weakened for those with higher earnings and for second earners in couples. Marginal effective tax rates will tend to fall for those on lower earnings, and rise for those on higher earnings, although this pattern also depends on how many earners there are in the family. The reform will also lead to both winners and, in the long run, losers. Because of the way the parameters of Universal Credit have been set, couples, and particularly those with children, look set to gain by more, on average, than single-adult families, particularly lone parents, who will lose on average according to our analysis. But, in general, the impact on incomes is progressive, with the bottom income deciles gaining the most as a fraction of income.' (pp.67-8) (www.ifs.org.uk/bns/bn116.pdf)

The **Institute for Fiscal Studies** has reported research on the National Minimum Wage (NMW) undertaken by a team at Royal Holloway College in the University of London. They find that 'the NMW is associated with a significant fall in wage inequality in the bottom half of the distribution', and that in those areas where the NMW has had the largest effect on wage levels, declines in wage inequality are steeper than elsewhere. 'While the overall effect of the NMW on employment rates averaged over its existence is neutral, [they] do find small positive employment effects from 2003 onwards. Likewise, the association of the NMW with unemployment has been negative in recent years. NMW effects on hours have been mixed, but overall there is no compelling evidence to indicate that the NMW upratings have had an adverse effect on full-time total hours of work … The areas where the NMW bit most have experienced larger falls in unemployment, particularly in the latter half of the sample period', (Peter Dolton, Chiara Rosazza Bondibene and Jonathan Wadsworth, 'The UK National Minimum Wage in Retrospect', *Fiscal Studies*, vol.31, no.4, pp.510-532).

Obituary

Kevin Donnelly, who was an active supporter of Basic (Citizen's) Income from its early days in the 1980s, has died at his home in Manchester aged 82. In an article by Kevin in the *BIRG Bulletin* in 1989 he described himself as 'currently supply teaching, writing articles and leaflets, after a career as high-school dropout, toolmaker, clerk, sales manager, then teacher'.

Kevin was passionate about doing something to better the lives of ordinary working men and women. He expressed this through his religious belief, as well as actively promoting a Citizen's Income in any arena available to him. In 1989 he was a founder trustee of the Basic Income Research Group, which became the Citizen's Income Trust in 1994.

The standard definition of a Citizen's Income is that it should be paid for by levying tax on the incomes of workers. It was unease with this aspect of Basic or Citizen's Income that led Kevin (and me) to become involved in monetary reform. If the state reclaimed the money-creating power from commercial banks, then the proceeds could be used to fund a small Basic Income. Monetary reform used to be the preserve of cranks (and sometimes bigots as well), but it has now become urgent and mainstream following the banking crash of 2008. An important forum for the monetary reform debate is the Christian Council for Monetary Justice, of which Kevin was a long term supporter.

Kevin, always inspirational, argued with infectious good humour. His great joy was in pricking the pomposities of the hide-bound and conventional. His do-it-yourself Christmas cards with their poems and pictures were a delight. Game to the end, his wife Shirley tells me he had several recently delivered books yet to read.

Conall Boyle

Main article

The International Labour Organisation's analysis of social transfers worldwide augurs well for a Citizen's Income in the context of middle and low-income countries [1]

by Ian Orton [2]

Introduction

To support its campaign on the global extension of social security, in 2008 the International Labour Organisation (ILO) undertook a study of 126 research reports on tax-financed social transfer programmes (STs) operating worldwide. 62 programmes from 30 developing countries were analysed. These STs reach between 300 and 350 million beneficiaries – children, working adults, and elderly people – and represent a considerable proportion of the world's poor. The results are available through the ILO's online *Matrix on the effects of social transfers* (2009).[3] STs have emerged as a core component of poverty reduction strategies supported by international organisations such as the World Bank and a number of UN institutions. Thus their impact merits considerable interest.

This article outlines the current knowledge on the effects of STs in a way relevant to those interested in Citizen's Income (CI). STs are not unlike CIs. They are non-contributory and tax-financed, and a considerable number of STs are unconditional and universal (across certain groups). The ILO study shows positive impacts of STs on a range of areas of human existence. The study therefore enables us to predict the kinds of effects that a CI could deliver in low and middle income countries.

The findings of the ILO matrix on social transfers

The ILO's matrix was developed to support decision-making within ministries of planning and finance, mainly in developing countries. By ordering the unintended and intended effects of tax-financed STs in developing countries in relation to human development goals and the anti-poverty agenda, the matrix helps to inform national policy makers about the outcomes that could be realistically expected from STs and to guide investment in social security systems. Likewise, all those interested in CI might utilise the findings of the matrix to guide their arguments on the CI proposal.

1 This paper was originally submitted at the 13th International Congress of the Basic Income Earth Network in Sao Paulo, Brazil, June 2010. I would like to thank Armando Barrientos, Florence Bonnet, Philippe Marcadent, Nadine Ndeberi and Luis Soares for their assistance, and the ILO's Social Security Department for financing the original research that features in this paper.

2 The author currently works as the Financial Crisis Monitor for the International Social Security Association.

3 The author of this paper was a member of a team that carried out the research that constituted the content of the ILO matrix. The ILO matrix project was supervised by Philippe Marcadent. The data contained in the matrix is discussed more analytically in the new ILO book: *Extending social security for all: a guide through challenges and options* (2010a) and in an ILO working paper entitled: *Effects of non-contributory social transfers in developing countries: A compendium* (2010b).

Results

The table below gives an overview of the impacts of the STs. In the columns, the impact of STs in the specific sub-dimensions are documented. Programmes had a generally positive effect, [4] evidenced by the significantly higher scores in the 'clear positive effect' column for all but five of the sub-dimensions. Those sub-dimensions where the overall positive impact cannot be discerned are highlighted in grey.

The conclusion of this article is that a majority of the social transfers studied clearly generate a range of positive effects in terms of enhancing human development, supporting the full utilisation of productive capacity, enhancing and stabilising consumption, and facilitating social cohesion and inclusion.

TABLE: Summary of the ILO matrix: Effect of social transfers

Impact dimension and sub-dimensions	Number of programmes with a clear *positive* effect	with a clear *negative* effect	with *no* evidence of effect	where *effect is unclear*	Total
1. Enhancing human development					
Adult preventative health	1	-	-	1	2
Child labour	6	-	2	2	10
Child preventative health	7	-	-	-	7
Drop out rates	4	-	-	1	5
Educational attainment	9	-	-	1	10
Maternal preventative health	3	-	-	-	3
Reduction in the worst forms of child labour	1	-	-	-	1
School attendance	12	-	-	-	12
School enrolment	13	-	-	-	13
2. Supporting the full utilisation of productive capacity					
Employability	1	-	1	2	4
Employment creation	4	-	1	2	7
Reduction of informality	-	1	-	-	1
Participation in the labour market	5	2	-	2	9
Productive activities	15	-	-	-	15
3. Enhancing and stabilising consumption					
Food expenditure	4	-	-	-	4
Income inequality	4	-	2	-	6
Income level and stimulation of consumption	20	-	1	3	24
Income stability and consumption smoothing	5	-	-	-	5
Long-term effects on income and consumption	5	-	1	-	6
Nutritional level	10	-	2	-	12
Satiation	3	-	-	-	3
4. Facilitating social cohesion and inclusion					
Empowerment	14	-	1	2	17
Intra-household relations	4	-	-	1	5
Social capital and solidarity	4	3	-	-	7

4 For a more detailed description of the methodology employed to calculate the scoring system that features in the table please see: Orton, I. 2010. *Reason to be cheerful: How ILO analysis of social transfers worldwide augurs well for a basic income.* www.bien2010brasil.com

This study shows that STs exhibit positive impacts on poverty, health and nutrition, the social status of recipients (notably women), economic activity and entrepreneurial small scale investments (notably in agriculture), and have avoided significant adverse effects on labour market participation of the poor populations which they serve. The studies also show that many families used part of the cash transfer to invest in small-scale agricultural activities, including the purchase of livestock. However, in the areas of adult preventative health, reduction in the worst forms of child labour, employability, reduction of labour market informality, and social capital and solidarity, the effect of STs is less obvious, either because there is no actual effect or because of limited research on the subject.

In light of these results, we can deduce that a CI could deliver similar effects in some instances. Consequently, the results can be used to support some aspects of the CI proposal. However, before the repercussions for a CI are discussed in detail, we need to explore a number of important caveats and knowledge gaps.

Methodological caveats and knowledge gaps

1. The programme evaluations covered by this study do not represent an exhaustive list. Rather, the study covers those programmes that were easily accessible online and were Anglophone and to a lesser extent in Portuguese.
2. There are problems in finding original sources online. In light of this, the study cannot be considered to be comprehensive, though the studies used are probably representative and give a good overview.
3. The findings in the table are the result of a subjective chain of interpretation open to human error.
4. The matrix suffers from knowledge gaps. For example, little is known about the effects of STs on non-beneficiaries, and little is known about the macroeconomic impact of STs on economic growth and about how this affects general redistributive mechanisms (formal and informal).
5. The evaluations privilege quantitative measures over qualitative ones. This is a concern because the qualitative effects of STs (i.e. social bonds, capabilities, and human empowerment) may have a lot more to say about people's well-being than quantitative measures.

The analysis presented here can therefore only be considered as indicative of the effects of STs.

To what extent does the ILO study support the Citizen's Income proposal?

Thus far this article has cautiously suggested that the findings in the ILO matrix study augur well for CI, by indicating that it too can be expected to deliver a number of similarly positive effects. However, the message perhaps ought to be a little more mixed and nuanced, because the table better supports unconditional and universal transfers for children and the elderly (a CI for the young and the old) than for working age adults. A significant number of the STs that focus on active population groups are conditional and targeted (based on behaviour and income/wealth) and therefore one might suppose that their effects will be related to their conditional and targeted mechanisms.

Conclusion 1: Effects of social transfers for children and elderly support the case for a Citizen's Income:

The findings on the effects of STs on children and pensions suggest that a CI could have similarly positive effects. It is possible to make this conclusion because a significant number of the STs for these two vulnerable groups were unconditional or universal across these groups and are therefore similar to a CI. The social pensions evaluated were not based on previous activity or earnings and are therefore essentially a Citizen's Pension. Similarly, the South African Child Support Grant, which is unconditional, has encouraged human capital formation of the young and their future earnings (Agüero *et al*, 2007, p. 19). We could expect a CI to do the same for children. The results of social pensions and a number of other unconditional transfers support the expectation that a CI could generate similarly positive social and micro-economic effects.

Conclusion 2: Effects of social transfers for the active population deliver a mixed message for a Citizen's Income

Apart from the pilot CI in Namibia, there are no studies on the impact of a CI on active population groups, simply because, with the exception of the Alaskan Permanent Fund, there is no fully-fledged

CI that actually covers active population groups.[5] Secondly, the STs analysed in the ILO study differ from a CI because they are conditional.[6] It is therefore difficult to maintain with any certainty that the effect of a CI would be the same as for conditional and targeted STs.

Having said that, the findings of the Namibian pilot scheme do permit us an insight into how the active population group might react. For instance, according to the evaluation of this pilot, productive capacity of the active population group rose and economic activity rose, especially among women. In addition, own account work saw the largest increase, and particularly the tending of vegetable plots and the building of latrines, both of which increased the community's health. The pilot scheme also seemed to stimulate more micro-economic activity, with new shops opening. These findings are important as they provide evidence that a CI does not act as a disincentive in the labour market (see Basic Income Grant Coalition, 2009; Torry, 2009). This is of great significance, as the argument that a CI would act as a disincentive to productive activity tends to be one of the biggest concerns of policy makers and governments with regard to STs for the active population. Having said this, one must also be cautious about using the Namibian pilot scheme as absolutely conclusive evidence on the potential effect of a CI on the active population because of obvious limitations in terms of replicating an actual fully-fledged society-wide CI.

The key impediment to using the table to support CI revolves around whether it is the conditional nature of many of the STs that is pivotal in producing the positive results they have delivered. Does conditionality make the difference? If conditionality is *not* the overriding factor, then perhaps we can conclude that the unconditional and universal nature of a CI could deliver results similar to those documented in the ILO matrix. There is not space here to discuss this debate in full, but suffice to say that the precise role played by conditionality in delivering positive outcomes is not clear. As the author of this article and the ILO have argued elsewhere, it is problematic to argue that conditionality is pivotal in producing the outcomes generated by STs (see ILO, 2010a).

A similarly ambivalent conclusion on the role of conditionality is made by Gabel and Kamerman, who state that researchers have not been able to attribute with absolute certainty the causality between effect and the conditional mechanism, because of the difficulty in disentangling the effects of the policy from other elements (e.g., the state of the labour market) (2008, p.18). One suspects that the motivation for conditionality is to satisfy the 'paternalist twitch' of governments and policy makers (Standing, 2002: 208) and public thirst for satisfying the social ethic of reciprocity. There is therefore plenty of scope for arguing that a CI could deliver similar outcomes in the absence of conditionalities.

Closing remarks

It is not clear that conditionality is crucial in achieving certain human development goals or for producing the positive effects that have been identified in the ILO matrix, so the study can be used to support a CI, provided caveats and limitations accompany any such argument.

What the findings of the matrix definitely support are those conditional programmes which many see as precursors to a society-wide CI. For example: in Brazil, Senator Eduardo Suplicy, a key proponent of CI, has argued that the *Bolsa Familia* ST is a first step towards a CI (2006). This is because the behavioural demands synonymous with the receipt of cash from conditional STs are easier to sell to the public and political class than is a CI. The greater political acceptability synonymous with conditional [7] STs could help to cultivate a political and public culture more receptive to STs and, therefore, to a CI at a later stage.

Just as significant as the results of the matrix study are those of the pilot CI in Namibia which has demonstrated positive results similar to those documented in the ILO matrix table across an entire community, including the active population. Particularly significant are the positive effects on labour market participation and productive capacity. The linking of the matrix and the findings of the Namibian case study can bridge the 'unknown'

5 And this differs from the standard proposed version of a CI in that it is an annual dividend, therefore one wonders how far it can replicate the income smoothing nature of those STs that are paid monthly.

6 A similar discussion for the way many STs are targeted could also be made, but there is not space here.

7 The reason for this acceptability is that conditionality conforms to the social norm of 'reciprocity' whereby in social contract type relationship the recipient adjusts his or her behaviour in a way acceptable to the rest of society.

empirical dimension in the ILO study; given that hitherto no society-wide CI has really existed. Combining the results of the table and the Namibian case study justifies the expectation that a CI could produce similar effects to STs for the active population.

However, the current preference amongst governments and major international institutions (e.g. the World Bank) seems to be shifting toward conditionality, and this poses some concerns for those proposing universal and unconditional cash transfers. The political prospects of a CI would be better if the trend were against conditionality.

In conclusion: The ILO matrix confirms what many have suspected, that STs have a number of positive micro-economic and social effects. The matrix also offers proponents of CI reasons to feel optimistic that it too could produce similarly positive results.

Disclaimer: The author conducted the original research for this project as a consultant for the International Labour Organization. However, the responsibility for opinions expressed in this paper rests solely with the author and dissemination does not constitute an endorsement by the International Labour Organization of the opinions expressed in it.

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Review essay

Two Memoirs Tell the History of the Alaska Dividend

Dave Rose and Charles Wohlforth, *Saving For the Future: My Life and the Alaska Permanent Fund*, Epicenter Press, Kenmore, WA, 2008, 256pp, hbk, 978 0 9790470 4 6, $24.95, pbk, 978 0 9790470 5 3, $17.95.

Jay S. Hammond, *Tales of Alaska's Bush Rat Governor*, Epicenter Press, Kenmore, WA, 1994, pbk, 340 pp, 978 0 945397 43 4, $17.95

Alaska's Permanent Fund Dividend is closer to a Basic Income than almost any other policy in the world today. The lessons of how it was created and how it became so popular and successful are extremely important to the Basic Income movement. Two autobiographies available now tell different parts of the story of the Alaska Dividend. One is by Jay Hammond, the governor who, more than anyone else, is responsible for creating the fund and dividend. The other is by Dave Rose, the first executive director of the Alaska Permanent Fund Corporation.

Each book tells the story of its author's life. These stories are interesting in their own right, reflecting the experience of many latter-day pioneers who came to Alaska from the lower forty-eight states before or in the early years of statehood. Hammond moved to Alaska after being a World War II pilot, and he lived the Alaskan experience as a 'bush' pilot, a wilderness guide, a homesteader, a legislator, a small-town Borough President, and governor. Followers of current U.S. politics will be interested to know that Sarah Palin took the name of her television show from 'Jay Hammond's Alaska,' which ran for seven years in the late 1980s and early 1990s.

But followers of the Basic Income movement will be most interested in the inside accounts of how the Alaska Dividend was created and became the sound and solidly supported programme that exists today. Although the Alaska Permanent Fund (APF) is the source of revenue for the Permanent Fund Dividend (PFD), many non-Alaskans are unaware that the two are different programmemes created at different times by different kinds of legislation.

The events leading up to the creation of the fund began in 1955 when Alaska called a constitutional convention in advance of statehood. The constitution that was finally adopted proclaims that all of the natural resources of Alaska belong to the state for the benefit of the people.

One of the most important events which led to the development of the fund and dividend happened quietly in an office in Juneau in 1963. At that time, negotiations with the federal government over which lands would be transferred to full state ownership and which would remain federally owned had dragged on for several years. A geologist named Tom Marshall (according to Hammond) and/or the commissioner of natural resources, Phil Holdsworth (according to Rose), persuaded then-governor Bill Egan that there might be oil in far-northern Alaska. Egan then finished the land negotiations with the federal government by agreeing to take a 'large, barren and unpopulated wasteland on Alaska's Arctic Slope, near remote Prudhoe Bay.' In 1967, oil was discovered under that barren, unpopulated wasteland.

Jay Hammond was elected governor in 1974, when, he says, 'the scent of anticipated oil revenues wafted like musk in the halls of the state legislature'. Hammond was possessed with the idea of putting as much of that money as possible into a permanent fund that would pay dividends to Alaskans. The concept had been with him for a long time. Years earlier, as mayor of the small municipality of Bristol Bay Borough, he had tried unsuccessfully to create a similar programme at the local level using fisheries revenue.

Hammond had many reasons for favouring the fund and dividend. He thought that the temporary windfall should be saved rather than spent as it came in. He was afraid that the government would waste the windfall on poorly designed programmes or projects that would benefit only special interests or favored constituents. He wanted to make sure that every Alaskan would benefit from their jointly owned oil resources. And he hoped the dividend would help the poor.

After reading his book and speaking to him at the 2005 USBIG Congress, I still cannot say for sure how this idea came to Hammond and how he came to be so obsessed by it. He appears to have been influenced by the guaranteed income movement of the 1960s, but this does not fully explain where he got the idea for a state-owned fund paying dividends to all citizens.

Although Hammond was not the only person responsible for the creation of the fund and dividend, it is clear that it would not have happened without his single-minded pursuit of it for his entire eight years as governor. He made it his top priority. It was the object seemingly of every budget compromise he made from 1974 to 1982. The Alaska Dividend therefore owes its existence to the right person being in the right office at the right time.

The time was right not only because money was beginning to flow, but also because of public perception. Five years before he took office, in 1969, the state government had received an initial windfall of $900 million (six times the size of the state budget at that time) from the sale of leases for the right to drill. Some people at the time, including then-governor Keith Miller, argued that the state should invest the money and spend only the interest. But by 1974 all of that money was gone, and there was a widespread (if exaggerated) belief that most of it had been wasted. There was thus strong support for saving at least part of the expected oil windfall when Hammond began discussing the idea of a fund and a dividend with the legislature.

In 1976, after a series of compromises, Alaskans passed an amendment to the state constitution dedicating at least 25 percent of each year's oil royalties to the new APF. It was a fraction of what Hammond wanted. Although he discussed many different figures, he at one time had hopes of dedicating *50 percent* of *all* oil revenue to the fund. Royalties make up only about half of the state's oil revenues. Therefore, the APF is only one-fourth as large has Hammond had wanted.

The biggest missing piece, from Hammond's perspective, was the dividend. There is no mention of it in the amendment, which simply states that at least a minimum amount of certain kinds of mineral revenue would go into a fund of 'income producing investments.' It did not specify what these investments should be or how the returns would be used. Although these omissions were a disappointment to Hammond, according to Rose, the vagueness of the APF amendment was instrumental to its passage. It drew support from diverse groups, not all of whom would have supported a more clearly defined plan dedicating the returns to a dividend or anything else.

By both Rose's and Hammond's accounts, the dividend proposal was not popular with the public or with members of the legislature when Hammond started pushing for it in the late 1970s. The dividend got through thanks both to the strength of the governor's office and to a long series of compromises made by a few dedicated legislators.

After a court challenge about how dividends were to be distributed, the final version of the dividend bill was passed and went into effect in 1982. It dedicated roughly half of the APF's returns to the PFD. Unlike the fund itself, the dividend is not protected by a constitutional amendment. It is created by a simple majority vote of the state legislature. It is protected today, mostly, by its enormous popularity. According to Rose, a legislator proposed to do away with the PFD only six months after the first dividends went out. Rose writes, 'His proposal had ample support in the Legislature, but when the public heard about it, everyone ran for cover.' After just one dividend cheque, the PFD had a strong political constituency. After three or four cheques, it became politically inviolable.

But the fund was still not fully secure from diversion. The principal only had to be held in 'income producing investments.' There are many risky, politically motivated projects that can count as income producing investments. Many politicians wanted to use it for subsidized loans or infrastructure projects. Some wanted to restrict the APF to invest only in Alaskan assets. The legislature still has the power to intervene on any of these issues, but for the most part they have not. These issues have been resolved largely by the Alaska Permanent Fund Corporation (APFC), a body that was created in 1980 to manage the fund and dividend.

David Rose became the first executive director of the APFC in 1982. He made it his goal to follow the 'prudent investor rule,' a legal doctrine in which those who invest on behalf of others must seek the highest returns consistent with the safety of the investment. Investments with almost any other political goal are ruled out by the prudent investor rule, because they tend not to be the safest and most profitable. This rule was nominally established in APF legislation in 1980, but the law has few teeth. It takes the self-discipline of the managers and the oversight of public opinion to keep it in place. The state set up other programmes for subsidized loans and development projects. By the time Rose left office in 1992, the prudent investor rule was well established in precedent. The Alaskan public, wary that some bureaucrat might be blowing the source of their future dividends, paid close attention to the fund's performance.

Even Rose felt the temptation to use the fund for political objectives. He tells one story from the late 1980s when the manager of Kuwait's sovereign wealth fund came to him privately and suggested that the Kuwait fund, the APF, and two pension funds from the lower forty-eight states, should pool their assets and buy a controlling interest in British Petroleum (BP). Rose turned it down, of course, but not without some hesitation and daydreaming. It would have been a political move - not the move of a prudent investor.

These two books together lay out the long series of events between 1955 to 1992 that led to the APF being established in the Alaskan state constitution; the PFD being established by law; the prudent investor rule being established by law and precedent; and all being protected by public opinion. At the time of writing (January 2011), the APF is at more than \$38.4 billion. The most recent annual PFD (October 2010) was \$1,281 for every man, woman, and child in Alaska.

The dividend is safe for now because it continues to be one of the most popular programmes in Alaska, but that might not be true forever. The legislature has recently made several attempts to redirect the principal of the fund toward political projects, such as infrastructure investments, which show reduced commitment to the prudent investor rule. Alaskans were surprisingly resigned to the \$12 billion the fund lost in the financial crisis of 2008-2009.

Furthermore, Alaska faces difficult budgetary times ahead thanks to decisions made when the oil started flowing. Back then, when Hammond was trying to create the dividend, he reluctantly and regretfully signed a bill to eliminate the state income tax. Looking at short-term effects only, the elimination of the income tax seemed like a great idea. The state simply didn't need the tax, and it was making far more money in oil revenue than it needed to run the state budget. Hammond thought it would be much better to dedicate more oil revenues to the permanent fund and continue to finance most government spending through regular taxes. Eliminating the income tax would benefit Alaskans unevenly and temporarily. Dedicating an equal amount of additional money to the APF (and an accompanying dividend) would benefit all Alaskans permanently. Instead the state decided to live off temporary oil revenue.

Today nearly 85% of the Alaskan state budget is funded by oil. When those revenues run out there will be enormous pressure to redirect the PFD, and perhaps even APF principal, toward supporting the state budget. Furthermore, the state will be in the position of needing to find new tax sources just when the industry that dominates the state economy will be contracting. Perhaps natural gas will create a new resource boom just as the oil money begins to run out. Perhaps some other part of the Alaskan economy will take over. But it is clear that Alaska is in a more precarious position than it would have been if the state had saved more of its oil revenues.

It's tempting to think what might have been if Alaska had saved all of its oil revenue in a best-case scenario. Suppose the state had kept the income tax, put all its oil revenues into the APF, and spent only the interest. The APF would now be something in the neighborhood of eight-to-ten times its actual current size of $38.4 billion. For a best-case scenario, say $400 billion. Most financial analysts agree that one can withdraw up to 4% or 5% per year from an investment fund and still expect it to grow over time in real terms. Suppose the state was able to withdraw 5% each year, using half of it for dividends and half for the state's operating budget. That would produce a dividend of $15,000 per person per year and $10 billion for the state budget. Current total state spending is only $10.5 billion per year. Thus, the state would only need to raise $0.5 billion from other sources this year, and it would be able to envisage the day when returns to the fund financed the entire state budget.

Enticing, but it is a best-case scenario, relying on the most optimistic assumptions on every issue. It ignores all of the financial risks and political, economic, and demographic barriers to maintaining such a system. It also ignores the fact that the state needed to spend some of the oil money as soon as it came in. It was a poor state with weak infrastructure and poor schools: it no longer is - thanks to the oil boom. Although some of the oil money was wasted, some of it was well spent. As Rose argues, 'Until basic needs are met, such as education and public safety, the government has no business saving for the future.' Alaska had to spend a lot to meet its needs at the time, but it could have saved much more than it has. If Hammond had got his way, the fund and dividend would be four times the size they are now.

The APF and PFD give us a model on which we can improve. The memoirs of Hammond and Rose help us to understand how we can do it.

Karl Widerquist, Visiting Associate Professor, Georgetown University, Doha, Qatar

Reviews

Ruth Lister, *Understanding Theories and Concepts in Social Policy*, Policy Press, 2010, xii + 311 pp, hbk 1 861 34794 7, £60, pbk 1 861 34793 0, £19.99.

Not only is this a most useful textbook, but it is also a sustained argument for the usefulness of theory. The back cover says that the book is for students and their teachers, but because it constantly draws connections between social science theory and practical social policy it will also be read with profit by social policy practitioners.

Most of the book's chapters start with a set of theories or ideologies and then relate them to policy areas. Thus moral hazard and public choice theory inform our understanding of Thatcherism's quasi-markets; feminism has changed the position of the public-private divide and thus our treatment of domestic violence; post-Fordism has contributed to the change from comprehensive education to niche-marketing academies; Foucault has uncovered the disciplinary networks which now influence many areas of our lives; and the idea of 'social construction' tells us where 'the underclass' comes from – to mention just a few of the many connections to be found in the book.

Three important chapters then start with social policy concepts – needs, citizenship, community, liberty, equality, and social justice; and these too are related to practical social issues: mental health, the relationship between social security claimants and the state, and press censorship – again, to name just a few.

The structure and method of the book reflects the author's experience with the Child Poverty Action Group and as a university teacher, and the clarity of expression and organisation of the material have clearly benefited from her teaching experience. The final chapter on social movements similarly reflects Lister's constant engagement with social policy issues through her involvement in organisations, through her speaking at conferences, and through her articles and books. This chapter would have benefited from a rather more personal approach and perhaps should have included an account of issues she faced while at the Child Poverty Action Group. In general, the last few chapters would have benefited from more practical examples.

This is a marvellously comprehensive and comprehensible textbook. There is bound to be a second edition. It should contain a chapter on future directions in social policy which outlines the options for reform of the welfare state, and in particular extends the material on the argument between universalism and means-testing briefly begun on p.191. The debate over the feasibility and desirability of universal provision will be increasingly important in an age of austerity, and students and practitioners would benefit from an extended treatment of the field.

BIEN-Suisse, *Le financement d'un revenu de base inconditionnel*, Seismo, 2010, 204 pp, pbk, 2 88351 049 4, 38 SFr

We normally only review books in English, but with this edited collection we make an exception, not because it contains translations from our own publications, but because it is a sustained argument for the necessity and feasibility of a Citizen's Income.

Peter Ulrich's preface suggests that if Switzerland is to experience a society of citizens then it needs more equal incomes and more permeable social class boundaries. Increasing automation and the demands of sustainability will between them mean that not everyone will be employed full-time, so a Citizen's Income will be needed to provide for the necessary more equal incomes and to enable everyone to be employed part-time. Ulrich recommends that 25% of Swiss GDP (the same proportion as is spent on income maintenance in Switzerland today) should be spent on providing every Swiss citizen with a Citizen's Income of 1,500 SFr Citizen's Income. Higher taxes would make a Citizen's Income of 2,500 SFr per month possible.

Bridget Dommen-Meade's introduction to the book summarises the chapters and links their discussions into an argument for a Swiss Citizen's Income's feasibility. Then come three chapters arguing for the feasibility of a Citizen's Income in Switzerland: Bernard Kundig's insightful study of long-term changes in the economy and in Swiss society leads into an argument for a Citizen's Income funded by an increase in consumption taxes and flat income tax; Albert Jörriman suggests a mechanism which would result in the employed giving back an amount equal to the Citizen's Income, and he suggests how provision for unemployment and disability might relate to a Citizen's Income; and both Kundig and Jörriman suggest that a Citizen's Income of 2,500 SFr per month should be feasible. [This is approximately £1,500 per month or £18,000 per annum]; and Jörriman argues that a Citizen's Income of this level would not discourage paid employment and would encourage self-employment and co-operatives (p.81). Daniel Hani and Enno Schmidt argue for the same level of Citizen's Income and also argue for funding by an increase in consumption taxation, and emphasise the additional labour market choices in which a Citizen's Income would result.

The next few chapters are translations of published material about other countries. Marc de Basquiat argues for the feasibility of a Citizen's Income of €12.60 per day in France; Ingmar Kumpmann and Ingrid Hohenleitner suggest a phased implementation of a Citizen's Income in Germany, so that the effects on national income can be evaluated; and Pieter le Roux argues for a Citizen's Income of R100 (about £10) per week per adult. He shows that even though a consumption tax increase considered by itself would be more regressive than an income tax increase, when considered alongside the establishment of a Citizen's Income it would be *pro*gressive. The other two chapters are a translation of Anne Miller's article on minimum income standards in the third issue of the *Citizen's Income Newsletter* for 2009 and the Citizen's Income Trust's introductory booklet.

The chapters which advocate consumption taxes as a method of financing a Citizen's Income give pause for thought to those of us in the UK who have for so long assumed that reduction of income tax allowances and possibly adjustment of income tax rates would be the best method. Also of interest are discussions about the labour market effects of a Citizen's Income. If a partial Citizen's Income is likely to provide greater employment market incentives than a full Citizen's Income then it should be possible to find an optimum level of Citizen's Income, though probably only from practical experience of different levels. As Dommen-Meade suggests, the long-term effects of a Citizen's Income are more important than the short-term ones. She thinks the Swiss welfare system ripe for major change, and that a Citizen's Income is the way to do it. 'We are convinced …' (p.27).

Perhaps the most significant finding is that in every European country studied a partial Citizen's Income is found to be feasible. This raises again the question as to whether a pan-European partial Citizen's Income might be possible. Not only would this offer all of the benefits which a Citizen's Income in each country would offer, but it would also promote the efficiency of the European labour market, to the benefit of every European economy. The discussions of funding in the book suggest that such a pan-European Citizen's Income should be funded by a European consumption tax collected nationally.

Such a Citizen's Income would probably require Switzerland to join the EU: but that's another discussion.

Vladimir Rys, *Reinventing Social Security Worldwide*, Policy Press, 2010, x + 126 pp, hbk 1 847 42643, £60, pbk 1 847 426406, £19.99

This book is the fruit of a lifetime of academic research and administrative experience in international social security policy. Rys worked for thirty years for the International Social Security Association (ISSA) and for half of that time as its General Secretary, and there can be few people with such a broad geographical and historical overview of the evolution of social security (here understood as financial benefits and also state insurance-funded health provision) and of the challenges facing it.

The first part of the book offers an international history of social security, a discussion of the economic and ideological context of the current debate, and some current trends:

> '… a series of shifts in emphasis on different elements in the existing structures and different roles assigned to specific actors. Thus, the state, while reducing its direct involvement in running social security schemes and providing social welfare benefits, is at the same time greatly increasing its powers when it comes to regulating occupational or private arrangements. Simultaneously, … there is an obvious shift of responsibility back to employers and different forms of occupational welfare, back to families and their supporting role, and also back to the individual and their personal capacity to save for rainy days' (p.55)

The second part of the book builds on Rys's previous publications on the sociological study of social security policy, and in particular discusses the ISSA's contribution to the development of a method which goes 'beyond the descriptive accounts of the institution as contained in legislative texts and [explains] why it is organised the way it is and why it functions the way it does' (p.77). Such a method contributes to policy debate by suggesting which proposals might be feasible and which not. The different components of the method are discussed: the demographic, the economic, the sociological, and the political, the study of ideas, ideologies, laws, institutions and administrative techniques, and the study of the ways in which ideas are disseminated. The method is then applied to a variety of contexts, and particularly to eastern Europe (- Rys is Czech).

The third section of the book is entitled 'Reinventing social security in time of economic crisis: foundations of a new political consensus' and argues for transparency about expenditures and present and future benefit levels and that only a renewed emphasis on social insurance can halt the privatisation of social security:

> 'The principle of social insurance appeals partly to the rational self-interest of the individual, assuring them of access to benefits not normally attainable through private means, but also partly to their natural sentiment of solidarity and respect for other human beings' (p.116)

As Rys suggests in his introduction, 'it would be irresponsible, in the light of recent experience, to entrust [social insurance] to private arrangements' (p.2).

Whilst rather too much of this book is of the 'We did this at the ISSA' variety, there is plenty of useful material here, and, above all, a sustained and rational argument for the importance of social insurance. However, Rys's own career investment in the development of today's systems leads him to neglect developments in which he has been rather less involved. It simply isn't true that 'no new social protection mechanism has been invented to deal with new risks and socially precarious situations' (p.1). 'Basic income', 'citizen's income' and 'Child Benefit' don't appear in the index, and neither do 'universal' or 'universalism'. Recent experience in Namibia suggests that universal provision might be precisely the new mechanism which the current crisis needs.

Bernd Marin and Eszter Zólyomi (eds), *Women's Work and Pensions: What is Good, What is Best? Designing Gender-Sensitive Arrangements*, Ashgate, 2010, 321 pp, pbk 1 4094 0698 3, £35

The chapters of this book started life at a conference organised by the European Centre in Vienna, and it is therefore unsurprising that they contain more about Austria than about any other individual country; but there is still plenty of diversity, and the single country and comparative studies of recent changes in pensions provision contain material on a variety of European countries, including the UK.

Trends identified include: increasing female participation in the labour market, continuing gender-specific employment and caring patterns, population ageing, a transition from defined benefit to defined contribution schemes, increasing numbers of years of earnings being taken into account when pension levels in defined benefit schemes are calculated, and progressive equalisation between women and men of the age at which state retirement pensions become payable. The questions asked could be summed up by 'Can we create gender-specific and nevertheless fair rules for women and men alike within overall gender-neutral institutional frameworks?' (p.18)

Annika Sundén, in a chapter on retirement income security, recognises that what is good for women in the long term (e.g., longer formal labour market participation) might not be good for them in the short term – and vice versa (e.g., means-tested benefits, which can be of benefit in the short term, but which create labour market disincentives and thus be detrimental in the longer term). Fornero and Monticone identify the risks inherent in the recent transition from women being largely dependent on men's accrued pension rights to their increasingly individualised pension entitlements. Ashgar Zaidi et al discuss the surprising fact that the poverty risk for older women is 'higher in EU15 [the first fifteen European Member States] (23%) than in the new Member States (18%)' (p.99), and finds that 'flat rate universal minimum benefits have been … most effective in improving women's pension incomes' (p.103). Readers of this *Newsletter* will be particularly interested in the Dutch residence-based universal state pension discussed in this chapter, especially now that Professor Steven Webb, Minister of State for Pensions, has proposed that the UK should implement a Citizen's Pension.

Of special interest in the chapters on single country and comparative studies is Gould's conclusion that partial disability benefits can contribute to labour market participation and thus to income in retirement. Marin's chapter suggests that 'women are much less women than men are men – and women are much more different among themselves than they are different from men' (p.223), meaning that creating the right mix of pension provision is going to be a complex business. The overall message to emerge from this book is that pension provision is generally a highly complex matter, but that lessons can be learnt by studying both the structures and the detail of different countries' systems, and in particular the effects of those systems on women's incomes in retirement.

Some of the chapters and a comprehensive annex are packed full of voluminous data: a treasure trove for students, teachers and researchers. (It's a pity that there is no index, that the chapters aren't numbered, and that the proofreading is far from perfect.)

Books such as this can sometimes suffer from a lack of coverage of the subject because each of the authors writes about their own very specific speciality. In the case of *this* book the highly detailed discussion of specific situations enables broad trends to be identified and broad conclusions to be drawn, making it a most useful volume.

Viewpoint

Where does housing fit in?

by Jake Eliot

Looking at progress against the pillars of the Beveridge welfare state: health, housing and education, many commentators have identified housing as the 'wobbly pillar', starved of investment or ineffectively maintained. The forthcoming *UK Housing Review* will show that the past two years has seen the highest sustained investment in social housing in the last three decades. [8] However, with 4.5m on housing registers and affordability ratios extending beyond the average there is a clear and pressing need for change.

The Hills Review into the future of social housing (2007) underlined that while there is a wide range of ways of supporting better housing provision, Britain has traditionally focused on three ways of providing housing support: the provision of social housing at affordable, sub-market rents; means-tested Housing Benefit; and tax benefits for owner-occupiers. [9]

The proportion of total welfare bill taken up by housing has increased considerably over recent years, and reform has been slow. The coalition government entered power with a commitment to reducing the welfare bill. The Emergency Budget of June 2010, the Spending Review, and consultation on the creation of the Universal Credit, have ushered in a

[8] http://www.cih.org/publications/downloads/ukhr.htm

[9] Hills, John (2007) *Ends and means: the future roles of social housing in England.* Centre for Analysis of Social Exclusion, London School of Economics and Political Science, London, UK

dramatic and wide scale reform of Housing Benefit. This is an appropriate time for those interested in a Citizen's Income to consider these changes and to ask where housing best fits with a Citizen's Income.

Housing Benefit

Housing Benefit (HB) is means-tested and directly supports people's real housing costs. As such it is already targeted at those most in need. Housing Benefit is available to those in work and to those out of work, and so it should, if effective, form an important part of a range of incentives and nudges to move off other out-of-work benefits and into employment.

Of the 4.7m households that claim Housing Benefit, 76% are retired or not expected to work due to illness, disability, or caring commitments. The remaining 24% of claimants are of working age and expected to work, with 540,000 (50%) in employment. It is estimated that around half of employed households who would be eligible for Housing Benefit do not claim.[10]

Debates over the reform of Housing Benefit are many and varied. However, it is feasible to summarise two broad issues of interest to supporters of a Citizen's Income:

- Increasing costs to the public purse, because of pressure in the UK housing market and concerns that a system that allows for payment of up to 100% of unregulated private market rents creates an incentive for landlords to maximise rental return from HB claimants and a lack of incentives for HB claimants in the private sector to seek suitable accommodation and lower rents. The Government's analysis is that, without reform, expenditure is expected to rise to £24bn by 2014/15.[11]
- The high taper rate of HB contributes to the poverty trap and means that recipients have few incentives to find work. Housing Benefit has a taper rate of 65% which is applied to income above the applicable amount. The Housing Benefit and Council Tax benefit taper rates are additive, so the marginal deduction rate faced by a claimant in receipt of both Housing Benefit and Council Tax benefit is 85%, so net incomes rise in very small proportion to gross earnings. In his report on the future of social housing, John Hills used the example of a couple with two children, paying a rent of £120 per week. In this case, the household would gain only £23 a week from an increase in earnings from £100 to £400 per week.[12]

Reforms in the last two decades, like the introduction of Choice Based Lettings for social housing, and the creation of the Local Housing Allowance for those receiving Housing Benefit in the private sector, have put a greater emphasis on Housing Benefit as a system which encourages and supports its recipients to make more active choices from the options that they face.

Since the budget in June 2010, the coalition Government has announced a number of significant reforms to Housing Benefit:

- Local Housing Allowance rates will be set at the 30th percentile of rents in each Broad Rental Market Area rather than the median rate, meaning that tenants will only be able to claim rent for the cheapest 30% of properties in the local area.
- Extending to 35 the age below which single people can only claim HB for a room in a shared house. Currently the single room rate is limited to people 25 and under.
- Increases in non-dependents' deductions over a three year period from April 2011.
- Tenants who have claimed JSA for more than one year will lose 10% of their HB entitlement from April 2013.
- Government intends to limit claims of HB of working age people to the size of accommodation they are deemed to need. More detail on this is expected in the coming year.
- Housing Benefit will be reduced by the Government's proposed total benefits cap, projected to be £26,000 per year (£500 per week) by 2013.

Housing and the Universal Credit

Unifying current benefits for working and non-working households to create a single Universal

[10] National Housing Federation, *Responsible Choices for a Fairer Future*, July 2010.

[11] The Rt Hon Iain Duncan Smith, Secretary of State for Work and Pensions, Speech to Institute for Public Policy Research, Tuesday 7 December 2010

[12] Hills, John (2007) *Ends and means: the future roles of social housing in England*. Centre for Analysis of Social Exclusion, London School of Economics and Political Science, London, UK

Credit will help to simplify the system, but, critically, the focus of the Universal Credit is to improve the incentive to work by making work pay through creating a single integrated taper which will withdraw support more gradually as earnings rise. As the analysis of the white paper in the last *Citizen's Income Newsletter* made clear, the Universal Credit will provide a simplified structure designed to cover a range of needs. The credit will be an integrated working age welfare payment for a basic personal living allowance with additional elements for households with children, people with disabilities or caring responsibilities, and housing costs. As well as replacing Income Support and Income Related Employment Support Allowance, and Working and Child Tax Credits, it will also include Housing Benefit.

The White Paper states that an appropriate amount will be added to the Universal Credit to meet the cost of rent or mortgage interest. A number of supporters of greater simplification and streamlining of benefits may view this as a fudged compromise, but this addition is potentially an important commitment to retain a link between benefits and the actual rent charged to individuals.

A system that does not take into account the real costs of housing could leave existing tenants unable to keep up rent payments and leave social housing providers unable to build new homes. To date, a reliable income stream of Housing Benefits has allowed independent housing associations to secure long-term loan finance at reasonable rates that has enabled them to build affordable, social, supported and specialist homes that neither the market nor local authorities have been able build.

The actual impact of the Universal Credit on housing will only become clear as details are agreed. However, as the Universal Credit will assist mortgage interest costs as well as rents, it will help the welfare system to be more tenure neutral. However, individuals and families getting help with housing costs will have their earnings disregard reduced by a multiple of 1.5 times the eligible costs, down to the floor of minimum earning disregards for those with higher levels of housing costs. This will mean that the higher the household's housing costs the less positive the financial incentives of the scheme.

The proposals for the Universal Credit are focused on people of working age and the upper limit for the Universal Credit will be the age of eligibility for Pension Credit. However, the Government is planning to change Pension Credit to provide support for rents and to add a further element to provide income-related support for pensioners with dependent children.

Housing Benefit and the Citizens Income

Due to the inefficiencies and structural problems within the UK housing market, dedicated support with housing to meet the real costs of rents and mortgages is needed. There are a number of possible responses that a CI might make to the Housing Benefit debate, which may be worthy of further exploration. To get the conversation started, here are three deliberately simplistic responses which in practice are not mutually exclusive:

- **Leave it alone:** Housing remains outside the CI as a payment to households rather than individuals.

- **Bring it together:** Look at the opportunities of a CI alongside a Universal Credit which would include a simplified, tenure neutral approach to housing costs. The interaction of a Universal Credit with a CI could offer a radical simplification of housing support making the system transparent, accountable and simpler to run. This approach would lead us to look at policy approaches and delivery mechanisms that will help support this in an era where central government is keen to see more localised leadership and reduced costs, such as authorities grouping together to provide streamlined and shared benefits service.

- **Look wider**: Rather than asking a technical question about how approaches to specific benefits might sit together, supporters of a CI could ask what we need a housing policy to do in order to help deliver the CI's outcomes: redistribution of income, poverty reduction, clearer incentives to work and participate in society, and greater choice, control and autonomy for citizens in the housing market. This might focus on policies to improve the supply of social housing and ways to deliver more mixed communities through a variety of low cost home ownership options, as well as looking at the role of the private rented sector and asking what regulation and approach might be required.