Citizen's Income *newsletter*

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Contents

Citizen's Income Newsletter
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Disclaimer: Views expressed in this newsletter are not necessarily those of the Citizen's Income Trust

On Tuesday 4th March at 6.30 p.m. a meeting on Citizen's Income will take place at the Houses of Parliament

This meeting is part of the People's Parliament initiative organised by John McDonnell MP.

Professor Guy Standing, SOAS, University of London, and author of *The Precariat: The new dangerous class*, will tell us how the need for a Citizen's Income is increased by the growth of the precariat in the UK and elsewhere

Dr. Malcolm Torry, Director of the Citizen's Income Trust, and author of *Money for Everyone: Why we need a Citizen's Income*, will explain how a Citizen's Income would have significant beneficial effects for individuals and for society, and that it is an entirely feasible policy

Natalie Bennett, Leader of the Green Party, will tell us why the Green Party supports Citizen's Income

This is a ticket only event. For instructions on obtaining a ticket please see the notice about the meeting on the Citizen's Income Trust's website at www.citizensincome.org. Presentations start at 6.45 p.m.. Please arrive sufficiently early to get through security. The queue can sometimes be quite long.

Editorials

Complexity in the benefits system

It must be exceedingly frustrating for ministers and civil servants that every attempt that the Government makes to simplify the UK's benefits system results in increasing complexity. Take the example of Universal Credit: One of its aims is to ensure that payments will be permanently accurate because based on real-time information about wages being passed seamlessly from employers to Her Majesty's Revenue and Customs and then on to the Department for Work and Pensions, thus alleviating claimants of the need to declare changes in earnings. Some unfortunate facts are getting in the way of this plan: that individuals have short-lived and/or multiple employments; that households are far from simple or stable (- this is important because the household is the claimant unit for Universal Credit, but the individual is paid wages and pays Income Tax); that computers cannot cope with complexity; and that the relationship between Universal Credit and other benefits is rather complicated, particularly in relation to the new localised Council Tax Support Scheme. A public domain National Audit Office report catalogues a long list of problems:

> The Department does not yet know to what extent its new IT systems will support national roll-out. … It is unlikely that Universal Credit will be as simple or cheap to administer as originally intended. Delays to roll-out will reduce the expected benefits of reform … Throughout the programme the Department has lacked a detailed view of how Universal Credit is meant to work. The Department was warned repeatedly about the lack of a detailed 'blueprint', 'architecture' or 'target operating model' for Universal Credit. Over the course of 2011 and the first half of 2012, the Department made some progress but did not address these concerns as expected. By mid-2012, this meant that the Department could not agree what security it needed to protect claimant transactions and was unclear about how Universal Credit would integrate

> with other programmes. These concerns culminated, in October 2012, in the Cabinet Office rejecting the Department's proposed IT hardware and networks. [1]

A leaked DWP document reported in *The Guardian* shows that there might be options for rescuing Universal Credit, but that only

> 25,000 people – just 0.2% of all benefit recipients – will be transferred on to the programme by the next general election, whichever route is taken. … Duncan Smith has repeatedly maintained that [U]niversal [C]redit will be delivered on time and on budget but, according to sources close to the project, senior civil servants have raised concerns in the past few weeks that the 2017 deadline for getting millions of people on to the programme is now unrealistic because IT systems are not working as expected and design flaws are too numerous. [2]

An unintended consequence of attempting to simplify means-tested benefits would appear to be an increase complexity.

As research by the Institute for Public Policy Research for the Joseph Rowntree Foundation has found, a particularly important unintended consequence of Universal Credit is that

> an enormous number of workless partners (the DWP estimates around 900,000) will find they lose money if they move into work, because of the speed at which the benefits they are claiming under Universal Credit will be withdrawn. [3]

The IPPR suggests that

> the government should introduce a second earner disregard alongside Universal Credit, which would allow workless partners to keep some of their extra income from work, up to a specified amount. [3]

But surely this would add yet another complexity to an already complex system. Means-tested benefits are inherently complicated, and to add new disregards can only make the situation worse, unless of course earnings disregards are 100%: that is, however much an individual or a household earns benefits will not be withdrawn. To apply such a provision only to current means-tested benefit claimants would of course be exceedingly unjust, because they would continue to receive their benefits at the same time as their taxed earnings, and those who had not been receiving benefits would receive only their taxed earnings. The only fair solution to the dilemma would be a nonwithdrawable payment to every individual: a Citizen's Income. Provided a genuine Citizen's Income were to be paid, complexity would be impossible, and ministers and civil servants would find their lives to be a great deal easier.

Thirty years ago

In 1984 the Basic Income Research Group, which later became the Citizen's Income Trust, issued its first publication:

> *Scrap the earnings rules!*
>
> People who claim Supplementary Benefit can only earn up to £4 each week before they lose their benefit pound for pound. Claimants of unemployment benefit can earn up to £2 per day before their benefit starts to be withdrawn. Earnings rules are a disincentive to unemployed people edging their way back into employment. It often is not worth their while to take up part-time jobs in the few areas where they are available. A major advantage of a Basic Income [Citizen's Income] scheme is that it would abolish all earnings rules. However much you earn, you keep your Basic Income. [4]

Readers will notice the similarity.

Will we still be writing the same thirty years from now?

1 www.nao.org.uk/report/universal-credit-early-progress/ pp 7-8

2 'Work and pensions secretary Iain Duncan Smith is understood to prefer the plan to improve the existing universal credit system', *The Guardian*, Thursday 31st October 2013

3 www.ippr.org/articles/56/11507/to-tackle-in-work-poverty-start-with-second-earners

4 Basic Income Research Group News Sheet, Autumn 1984

Main article

The political feasibility of a Citizen's Income in the UK

by Malcolm Torry

This essay begins and ends with a genuine question: Given the proven desirability and financial feasibility of a Citizen's Income, why does a Citizen's Income not appear to be politically feasible?

Briefly in the Citizen's Income Trust's introductory booklet, [1] and at greater length in *Money for Everyone*, [2] the case is made for the desirability of a Citizen's Income's desirability. Because it would not be withdrawn as earned income rose, a Citizen's Income would reduce marginal deduction rates for any household currently on means-tested benefits (including 'tax credits') and would make it more worthwhile for every one of those households to seek new or additional employment. Everyone of the same age would receive a Citizen's Income of the same amount every week, and this would create social cohesion in place of the social division currently created by our means-tested and contributory benefits systems. Because a Citizen's Income would be paid at the same rate whatever someone's employment status, it would enable individuals to seek the labour market involvement that their circumstances required and it would provide a more flexible labour market for both employers and employees. Since neither the Citizen's Income nor the higher Citizen's Pension would be reduced as savings rose, they would not discourage savings as means-tested pensions and other benefits do now. A Citizen's Income would be extremely simple to administer and it would reduce drastically the cost of benefits administration and would eliminate fraud and payments errors. Computerisation would be easy.

Both the introductory booklet [1] and *Money for Everyone* [2] (along with its website appendices [3]) show that a Citizen's Income could be paid for by reducing existing benefits and tax allowances and in such a way that no additional public expenditure would be required. Further, few households would suffer appreciable losses at the point of implementation, and that those households that do experience losses could easily recover their economic position by seeking relatively small amounts of additional earned income because that extra earned income would not result in the Citizen's Income being withdrawn.

Unfortunately, arguments and evidence do not necessarily add up to political feasibility. Pilot projects in Namibia [4] and India [5] have exhibited significant improvements in labour market activity and in a variety of other social and economic indicators: but however persuasive the evidence might be, politicians have found it hard a) to recognise that this is the case, and b) to commit themselves to the policy that generated that evidence. In India, initial political enthusiasm for the pilot projects, for the evidence generated, and for unconditional cash transfers, has given way to a re-emphasis on the distribution of subsidised food to the poor: a process that provides plenty of opportunity for corruption, waste, and all of the usual problems that afflict means-tested benefits. In Namibia, a press release issued by the Namibian Basic Income Grant Coalition represents the problem:

> Despite the positive results, the Namibian government has still not committed itself to the introduction of a BIG [Basic Income Grant: Citizen's Income] in Namibia. Instead, senior government leaders have raised concerns that the grant would make people lazy and dependent on hand-outs. Such perceptions are rooted in prejudices rather than being based on the evidence provided by Otjivero! We wish to point out that the BIG Coalition arranged for many Namibians, including Members of Parliament (MPs), to visit Otjivero and to witness the developments there first-hand. The honourable MPs were free to assess the impact of the BIG themselves and they were impressed with the results achieved in Otjivero. However, they preferred to express their views in private instead of speaking out publicly in support of a national BIG. [6]

A Negative Income Tax would be administratively different from a Citizen's Income, but in other respects it would be similar: and Negative Income Tax experiments in the USA between 1968 and 1980 exhibited the same problem as that suffered by the Namibian and Indian Citizen's Income pilot projects. In this case, discussion of initial positive results in relation to poverty reduction and labour market engagement was submerged by heated debate about what appeared to be a rise in the number of divorces: and even though it was shown that there had in fact been no rise in the divorce rate discussion of a Negative Income Tax did not resume. [7]

In the UK, politicians and those who advise them have sometimes studied the evidence and come to the conclusion that social security reform in the direction of a Citizen's Income would be worthwhile.

Christopher Monckton, who worked in Margaret Thatcher's policy unit from 1982 to 1986, recommended a Citizen's Income because it would meet basic needs, reduce employment disincentives, reduce administrative costs, encourage family cohesion, redistribute from rich to poor 'but only mildly', be revenue neutral (or involve only a small increase in the basic rate of Income Tax), stimulate many beneficial secondary effects, and be 'politically neutral': that is, it would both require and generate a political consensus. The problem that Monckton encountered was that the Treasury counts benefits as public expenditure but does not count tax allowances in the same way. If a tax allowance is turned into a cash payment of the same value, then public expenditure looks as if it has increased even though it hasn't. As Monckton puts it:

> Does all this matter? Yes it does, vitally, because national accounts prepared using this daft accounting principle are useless as a starting-point for policy formation. In particular, unless the Treasury is forced to mend its ways, it will always block the consideration of any universal benefit scheme, erroneously believing it to be in all circumstances unaffordable. [8]

During the 1980s there were 'One Nation Conservatives' who advocated a Citizen's Income because it was

> about changing attitudes *all the way down the income distribution instead of just at the top.* For there is no reason to suppose that people on low incomes react differently to increased economic incentives than people who are rich. (Brandon Rhys Williams MP) [9]

A little later, and a little further to the left, the Labour Party's Social Justice Commission argued that

> the case for Citizen's Income is partly moral and partly economic. The moral case rests on the principle of social citizenship … civil and political rights must go hand in hand with economic and social rights. And just as civil and political rights belong unconditionally to all citizens as individuals, irrespective of need or desert, so all citizens have a right to a share in the social and national product sufficient to make it possible for them to participate fully in the common of society … the state is no more entitled to say which citizens have a right to a sufficient share in the common stock to participate fully in the life of the society than to say which citizens have a right to vote or to a fair trial. And in modern conditions that principle can be realised more simply and more completely by a Citizen's Income than by any other mechanism. The economic case rests upon the falling demand for unskilled labour. … a Citizen's Income … enables those without saleable skills to take low-paid or casual jobs of some kind, while at the same time receiving an income large enough to enfranchise them, without the stigma of a means test.' [10]

To the left of the political spectrum, and in response to what he believed to be an unnecessarily non-committal Social Justice Commission report, Meghnad Desai, a Labour peer and Professor Emeritus of Economics at the London School of Economics, recommended a Citizen's Income simply because it would 'reduce poverty and allow for greater flexibility in labour markets', and because it would be possible to fund it by reducing tax allowances and other benefits. [11]

Somewhere on the political map lie the Liberal Democrats. Paddy Ashdown, who was leader of the party from 1988 to 1999, was a firm advocate of a Citizen's Income because it would be non-stigmatising, it would encourage work and saving, it would provide the labour market flexibility required by a modern economy, it would be

> well targeted because people with higher earnings automatically pay back more than the value of the [Citizen's Income] through tax

and it would

> provide a basis that people could use to gain education and training, and to retrain during their working lives. [12]

These political voices suggest that a Citizen's Income is in principle politically feasible. All it would take would be for MPs, and particularly party leaders, to study the arguments and the evidence, to draw the obvious conclusion, to reach all-party consensus, to pass legislation, and then to implement the policy.

Instead, a constellation of ideas appears to be firmly lodged in the minds of politicians across a variety of cultures, including ours: that universal benefits make people lazy, even though the opposite has been shown to be the case, both in theory and in practice; that it is essential to means-test benefits, even though means-testing is known to be expensive, inefficient, and prone to error and fraud; that those on benefits need to be treated as households rather than as individuals, even though household claimant units generate complexity, expense, error, and fraud; and that as people on benefits increase their earnings their benefits should be taken away from them, even though such withdrawal of benefits is known to disincentivise labour market activity. A classic expression of the current political mindset can be found in a speech that the leader of the Labour Party made on 6th June 2013:

> It doesn't make sense to continue sending a cheque every year for Winter Fuel Allowance to the richest pensioners in the country. ... When it comes to the decisions of the next Labour government it won't be our biggest priority to overturn the decisions this government has made on taking child benefit away from families earning over £50,000 a year. [13]

Ed Miliband offered no argument or evidence, and in the speech we find no consideration of the substantial administrative cost of sending the Winter Fuel Allowance to some pensioners and not to others as opposed to the very small administrative cost of sending it to everyone in receipt of a state pension; nor do we find any recognition of the fact that the wealthy pensioners about whom he was speaking are paying far more in Income Tax than they receive in Winter Fuel Allowance.

When I explain a Citizen's Income to a group of people, the normal experience is for the penny to drop for most members of the group – and you can sometimes watch it happen as furrowed browns turn to affirmative concentration – but for some members it never does. They simply cannot see that it would be both feasible and desirable to turn both tax allowances and means-tested benefits into unconditional payments, and by those means to pay to every citizen an unconditional and nonwithdrawable income. Means-testing is so securely lodged in their minds that no alternative proposition is able to dislodge it. Means-testing appears to be similarly lodged in the minds of Members of Parliament, except that in each generation there is a handful for whom the penny has dropped (of whom the late Malcolm Wicks was one). What appears to be happening is that Members of Parliament, and particularly ministers, are not doing their own reasoning. They are seeking evidence for public opinion in the print and other media, and they are finding articles and programmes in favour of paying more to poor people than to those less poor ('because they need it more'), in favour of extracting benefits as quickly as possible as people's earnings rise ('because they don't need it'), and in favour of imposing conditions on the receipt of benefits (to ensure that benefits recipients 'deserve' their benefits). Such articles and programmes may be a fair representation of public opinion because the vast majority of the public have not experienced an educational opportunity that might enable the penny to drop.

De Wispelaere and Noguera suggest that 'psychological feasibility' is prior to 'strategic feasibility' and that both are required for political feasibility. By this they mean that the public needs to be persuaded of the rightness of a new course of action before policy makers can be persuaded of it, and that both the public and policy makers need to be persuaded of the rightness of a new policy before it can be implemented. [14] There are of course counterexamples. Equalities legislation has often led public opinion, and the new behaviour generated by the legislation has helped to form new public opinion on a variety of equalities. Legislation to ban smoking in public places was ahead of the public mood in terms of its stringency, but public opinion soon followed. However, these counterexamples might not be relevant to the present case.

Starting with equal pay for men and women, and then moving on to other equalities legislation, most members of the public would have been clear about what the proposed legislation would achieve, and would have had some understanding of the reasons given for equalities legislation, even if they disagreed with it. Similarly, most members of the public would have been clear about what legislation to ban smoking in public places would achieve and would have had some understanding of the arguments for banning smoking in public places.

These are both examples of what we might call 'prohibitive' legislation, because they prohibit particular easily identifiable types of behaviour. Legislation to establish a Citizen's Income would be very different. It would be 'positively innovative', and would involve a transition from a current complex system to a future somewhat less complex one, rather than the easily understood prohibition of a single behaviour. Whilst the Citizen's Income would be simple enough in its operation, transition from the current system to one based on a universal benefit could be far from simple. Members of Parliament would not find it easy to explain to their constituents either the proposal or its effects. The penny might not have dropped for them; and, if it had, then they might still find it difficult to enable it to do so for others.

Having said that, if a genuine Citizen's Income were to be established, the benefits would be clear – as they were in the Namibian and India pilot projects. At that stage psychological feasibility would no longer be an issue. The problem is now. If psychological feasibility has to precede strategic feasibility, and if both are required before political feasibility becomes a possibility, then there really is a problem. However clear the benefits of a transition to a Citizen's Income are to those for whom the penny has dropped, the penny has not dropped for the vast majority of the public, and there is little likelihood that it will do so in the near future for three reasons. Firstly, an educational process is required which begins with gaining an understanding of our current benefits system, moves on to an understanding of how a Citizen's Income is different and better, and then moves to seeing how the transition could occur. Secondly, a Citizen's Income is counter-intuitive because our intuition has for so long been formed by a benefits system characterised by means-testing. Thirdly, a transition that the public does know about – to Universal Credit – has so far been a disaster. Universal Credit is not universal, but members of the public might perceive the truly universal Citizen's Income to be a kind of Universal Credit, and therefore decide that it must have all of the problems associated with Universal Credit.

Let us suppose for the sake of argument that public education has occurred, and has been of sufficient quality and depth to enable the majority of the British public to understand a Citizen's Income and its benefits. Let us further suppose that ministers now find themselves carefully considering establishing a Citizen's Income. Then another obstacle will appear.

Amongst proposed reforms of the UK's tax and benefits systems that have failed to be implemented are the tax credit proposals [15] of the early 1970s, Brandon Rhys Williams' proposal [16] for a Citizen's Income in 1982, and his mother Juliet Rhys Williams' similar idea [17] during the Second World War. Amongst proposed reforms that *have* been implemented are Family Allowance and then Child Benefit; [18] and amongst those about to be implemented is something like a Citizen's Pension. [19] Three patterns emerge:

1. The patterns that have changed the system, or that are likely to do so, have been for identifiable groups of people
2. Those proposals that have changed the system have benefited from longstanding and widespread debate and a reasonable level of public understanding of what was intended
3. Those proposals that have become Acts of Parliament are those that have not reduced the number of civil servants, and those that have not become Acts of Parliament would have done so. [20]

The first pattern suggests that a Citizen's Income ought to be implemented one demographic group at a time. Child Benefit is currently paid at a different rate for the first child, and equalising the rate for all children would give us a Citizen's Income for children. Removing the link between the proposed Single Tier State Pension and National Insurance records would give us a Citizen's Pension. Next could come a Citizen's Income for young adults (–this would facilitate university and other education). Then a Citizen's Income for the over 55s (to ease the transition into retirement); and finally a Citizen's Income for other working-age adults. [21]

The second pattern requires a sustained and deep educational exercise by all possible means, of Members of Parliament, of others with an influence on the policy-making process, and of the general public. This will be a far from easy task.

The third pattern commits us to a significantly difficult task. The reason for the pattern is obvious. Civil servants brief ministers. If a proposed policy would increase the size of a department then a departmental head would be likely to brief in its favour, whereas a policy that might reduce the size of a department might generate negative or neutral briefings. A Citizen's Income of almost any size would mean fewer households on means-tested benefits and therefore fewer benefits administrators; and the largest Citizen's Income that could be financed by reducing tax allowances and means-tested and other benefits might significantly reduce the number of civil servants. We can therefore see that ministers thinking of exploring the feasibility and desirability of a Citizen's Income might find their civil servants either advising against the proposal or amending it and therefore establishing something other than a Citizen's Income. Anything more complex than an unconditional and non-withdrawable income for every individual would require additional civil servants to manage its regulations and yet more civil servants to administer it.

We have arrived at an understanding of the conditions that might make implementation of a Citizen's Income possible: a substantial educational effort to enable the general public to see that a Citizen's Income would be both desirable and feasible; a similar educational effort to enable ministers and Members of Parliament to develop the same view; a Citizen's Income implemented one demographic group at a time; and ministers sufficiently convinced of the rightness of implementing a Citizen's Income that they were able to listen to and then ignore any biased civil service briefings against a Citizen's Income.

The conditions for implementation are perhaps both 'additive' and 'conjunctive': additive, like a tug of war team, because the strength of each element of the feasibility mix will enhance feasibility overall; and conjunctive, like a relay team, because the strength of the weakest element will determine whether implementation occurs. [22]

We are asking a lot of the policy process: we are asking that a substantial and deep educational effort should succeed in changing millions of minds for which means-testing is intuitive; that Members of Parliament and ministers should give both time and sustained attention to a highly complex policy field; that policy makers will understand that the Citizen's Income concept is non-negotiable and non-revisable: that is, that it is an unconditional and nonwithdrawable income paid to every individual; that ministers would be able to question negative briefings and maintain a steady course in the face of civil service attempts to complicate the proposal; and that interest and energy should be sustained as the different demographic groups receive their Citizen's Incomes.

This really is asking a lot, and it is highly unlikely that it will happen. This means that however desirable and however financially feasible a Citizen's Income might be, we might never see one implemented.

There is, of course, another possibility, and that is that policy-making does not always happen according to the logic that we have carefully constructed. We have looked back and found some patterns, and we have assumed that we can read off from them the future trajectory of tax and benefits policy. A brief look at one of the policies not implemented will help us to see that other possibilities might present themselves. The Heath Government's tax credit plans of the early 1970s *would* have been implemented if a General Election had not intervened. It is true that the proposal was somewhat complex and would not have reduced the number of civil servants, but it would have represented a major change in the way in which Income Tax and social security benefits were understood. It was a political accident that meant that Tax Credits were not implemented and that means-tested in-work benefits have been normative for the past forty years.

Political circumstances could equally well generate a very different outcome, and, somewhat surprisingly, Iran might provide a useful lesson. When the Iranian Government decided to withdraw subsidies on food and petrol, and to compensate poor households for their additional costs by establishing a means-tested benefit, the administrative system collapsed and the only way to ensure that poor families had sufficient income to pay for the now more expensive essential commodities was to pay the benefit at the same rate to every individual. Iran had arrived at a Citizen's Income by accident. [23] It is not beyond the bounds of possibility for the complexly computerised administrative systems for Universal Credit to collapse and for the only solution to be to pay a Citizen's Income. Whilst a rapidly implemented universal benefit, paid for by abolishing means-tested benefits and tax allowances, would be likely to generate immediate losses for some households, these would not necessarily be large in comparison to losses sustained by large numbers of households in relation to recent cuts in benefit levels and entitlements.

The abolition of means-tested benefits, or the drastic reduction of households receiving them, would reduce the number of civil servants, but, in this age of austerity, we should no longer assume that the pattern discovered by surveying attempts at benefits reform during the last century will apply to this one. The implementation of the 'small state' is a permanent UK government project, even if more in theory than in practice, and the implementation of a Citizen's Income could easily be justified on that basis as well as on the basis that there would be substantial administrative savings: a policy aspect always popular with Treasury ministers. Equally, a Citizen's Income could be argued to be a step on the same road down which Universal Credit was already taking us, thus turning the exit from Universal Credit into a PR success.

Nobody can predict that such a scenario will occur, because accidents are precisely that: accidents, and therefore unpredictable. However, the scenario is a possible one; and there might be other possible scenarios that would require a government to react quickly on tax and benefits policy. Contingency planning is never unhelpful, and it might be that contingency planning in the direction of a Citizen's Income is already in place, perhaps in preparation for the next financial crisis, so that quantitative easing can be paid out via a Citizen's Income, thus increasing the consumption of goods and services as well as increasing the money supply. But if contingency planning is not in place then it ought to be. A useful mechanism would be a Royal Commission on income maintenance: a policy instrument that we ought to have seen considered before. Where a policy field is complex, where a long-term plan is needed, where an all-party approach is therefore required, and where multiple and changing factors need to be taken into account, a Royal Commission is a tried and tested means of considering the policy options available, of drawing together the necessary evidence, and of coming to a considered decision as to the best options. Little use has been made of Royal Commissions during recent history, but that is no reason for not considering the possibility in today's particular circumstances. Whether a Citizen's Income would be the best option for the reform of the tax and benefits system would be for the Royal Commission to decide. Whatever the outcome of the Commission's research and discussions, a Citizen's Income, and the ways in which it might be implemented, will at least have been carefully considered. A Citizen's Income would in this way become a practical option; and, if one were to be needed in the midst of a crisis, then its implementation will already be a known quantity.

Good government requires nothing less.

Notes

1 *Citizen's Income: A brief introduction*, Citizen's Income Trust, 2013

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3 www.citizensincome.org/MoneyForEveryone.htm

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6 Press release, 'The Basic Income Grant (BIG) is Government's responsibility', Basic Income Grant Coalition, Namibia, 1st March 2012, http://bignam.org/Publications/Press_release_March_2012_to_Government.pdf

7 Robert A. Levine, Harold Watts, Robinson Hollister, Walter Williams, Alice O'Connor, and Karl Widerquist, 'A retrospective on the Negative Income Tax experiments: Looking back at the most innovate field studies in social policy', pp 95-106 in Karl Widerquist, Michael Anthony Lewis and Steven Pressman, *The Ethics and Economics of the Basic Income Guarantee*, Ashgate, 2005

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9 Brandon Rhys Williams, *Stepping Stones to Independence*, edited by Hermione Parker, foreword by David Howells MP, Aberdeen University Press for the One Nation Group of Conservative MPs, 1989, pp 35-6

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12 Paddy Ashdown, 'Breaking the poverty trap: A Basic Income', pp 5-6 in *BIRG Bulletin*, no 10, 1989, p 6

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19 Department for Work and Pensions, *A state pension for the 21st century*, Cm 8053, The Stationery Office, 2011

20 Malcolm Torry, *Money for Everyone: Why we need a Citizen's Income*, Policy Press, 2013, pp 43-5

21 Malcolm Torry, *Money for Everyone: Why we need a Citizen's Income*, Policy Press, 2013, pp 49-50

22 Ivan D. Steiner, *Group Process and Productivity*, Academic Press, 1972, pp 17-18

23 Hamid Tabatabai, 'From Price Subsidies to Basic Income: The Iran Model and its Lessons', pp 17-32 in Karl Widerquist and Michael W. Howard (eds) *Exporting the Alaska Model: Adapting the Permanent Fund Dividend for Reform around the World*, Palgrave Macmillan, 2012; Malcolm Torry, *Money for Everyone: Why we need a Citizen's Income*, Policy Press, 2013, pp 67-9

News

The Adam Smith Institute is advocating a Citizen's Income as the ideal benefits system: www.adamsmith.org/blog/welfare-pensions/the-ideal-welfare-system-is-a-basic-income

The radical journal **Red Pepper** has recently repeated its call for a Citizen's Income: www.redpepper.org.uk/time-for-a-basic-income/

The **Housing Associations' Charitable Trust**, a think tank funded by leading housing providers, is advocating a Citizen's Income and is calling on housing providers to join in the debate: www.hact.org.uk/blog/2014/01/15/time-housing-back-basic-income

Conference announcement

The 15th Basic Income Earth Network (BIEN) Congress will take place from the 27th to the 29th June 2014 at McGill University, Montreal, on the theme of *Re-democratizing the Economy*. Speakers include:

Alicia Bárcena Ibarra, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), United Nations

Roberto Gargarella, Professor of Constitutional Theory and Political Philosophy at the Universidad de Buenos Aires and Leverhulme Trust Visiting Professor at University College London

Renana Jhabvala, President of the Self-Employed Women's Association (SEWA), Bharat, India

Joe Soss, Cowles Chair for the Study of Public Service at the Hubert H. Humphrey School of Public Affairs, University of Minnesota

Guy Standing, Professor in Development Studies at the School of Oriental and African Studies (SOAS), University of London and Co-President, BIEN

David Stuckler, Senior Research Leader at University of Oxford and Research Fellow of the London School of Hygiene and Tropical Medicine and Chatham House

For further details, see www.biencongress2014.com.

Reviews

Karl Widerquist and Michael W. Howard (eds), *Exporting the Alaska Model: Adapting the Permanent Fund Dividend for reform around the world*, Palgrave Macmillan, 2012, 1 137 00659 2, hbk, xix+ 291 pp, £65

In 1797 Thomas Paine suggested that, because in principle the land belongs to everyone equally, those who occupy it should pay a ground rent to the whole community. We can generalise the profits that landowners reap from the occupation of land into the concept of 'economic rent': if someone uses natural resources that belongs to all of us in order to make money, then any income greater than the cost of production is 'economic rent'. Paine would have made the point that the economic rent belongs to all of us.

Oil companies extract oil from Alaska, and the Alaskan State Government taxes the oil companies and pays a proportion of the tax revenue into a permanent fund. The fund pays an equal annual dividend to every citizen of Alaska. Thus the economic rent relating to oil extraction benefits the whole community. The Alaskan Permanent Fund Dividend is not a Citizen's Income because it is an annual payment and it varies with the profits made by the Permanent Fund. Recently the dividend has been rather lower than previously – but, as the book points out, wherever economic rent arises from the exploitation of natural resources, a government can collect tax on private profits and use the tax revenue to pay a Citizen's Income.

The editors are candid about the genesis of this book: it contains material by a variety of authors that would not fit into their earlier *Alaska's Permanent Fund Dividend: Examining its suitability as a model*; but having said that, all of the material is directly relevant to the theme expressed by the title of this second book.

Part I employs the Alaska model - natural resource tax revenue, a permanent fund, and an equal dividend to every citizen – to ask where similar circumstances might make a similar dividend possible. Hamid Tabatabai tells how Iran has stumbled into paying a Citizen's Income (- though here natural resource tax revenue pays directly for a Citizen's Income without building a permanent fund). Angela Cummine asks why other similar permanent funds do not pay dividends to citizens, and concludes that the root reason is probably government desire to retain control over the funds and their incomes; Alanna Hartzok suggests that the Alaska Permanent Fund should be invested in more environmentally and socially responsible ways before the idea is exported; and Groh asks what will happen when oil revenues dry up.

Part II asks how the Alaska model might be applied where natural resources are not being extracted. Flomenhaft shows that if other such public assets as water, public forests, broadcast spectrum, and land value were to be treated in the same way as Alaska treats its oil, then taxes on the exploitation of such common resources could easily fund a permanent fund that would pay a dividend at least as large as Alaska's. Segal shows that employing such a policy in developing nations could cut world poverty by half. Hickel finds that South Sudan could fund both a substantial dividend and infrastructure improvements by employing the Alaska model. Hammond suggests that Iraq should employ the Alaska model to enable all of its people to benefit from oil revenues (- Jay Hammond was the Governor of Alaska who achieved the Permanent Fund and the Dividend, and his chapter is published posthumously). Howard suggests that governments should cap carbon emissions and then sell the rights to emit carbon up to this cap in order to fund a permanent fund and therefore a dividend. Widerquist studies the feasibility of a US fund paid for by taxing the exploitation of a variety of common resources, and suggests that this approach should be employed in Alaska in order to maintain the fund and dividend as oil revenues decline.

Part III explores Widerquist's proposal for capital accounts ascribed to each individual citizen at birth. The funds' owners can spend the dividends whenever they wish, but cannot spend the capital, which is passed on to their future generations.

The editors' final chapter suggests that the Alaska model should be viewed more as a list of questions inviting answers than as a fixed detailed policy to be applied in its entirety: Does the government wish to capture some of the economic rent generated by resource exploitation? Does the government wish to create a permanent fund? Does the government wish to pay a dividend to citizens? How large should it be? What proportion of tax revenue will relate to natural resource exploitation? Does the government wish to pay a variable annual dividend, as in Alaska, or does it wish to pay a more regular and less variable Citizen's Income?

As the proportion of gross domestic product distributed as wages declines, and a greater proportion accrues to capital (an inevitable process in a globalising economy), and as taxing corporations becomes increasingly difficult (another consequence of globalisation), governments will need to find new ways to fund both government expenditure and individuals' incomes. The obvious way to do this is to tax the value of common resources, and particularly the value of land and of natural resources extracted from it (because however global the economy, nobody can remove land or the resources contained under it, including water). Using the proceeds to fund a Citizen's Income would benefit both society and the economy. If economic rent from declining natural resources is used to fund a Citizen's Income then a permanent fund will ensure that revenue can be generated when the natural resource runs out. If economic rent from the exploitation of a natural resource that is in constant supply (such as land) is used to fund a Citizen's Income then a permanent fund is not required.

This book is a most useful companion to *Alaska's Permanent Fund Dividend: Examining its suitability as a model*, and is a book that any government concerned about falling tax revenues should read.

Robert A. Becker (ed.), *The Economic Theory of Income Inequality*, Edward Elgar, 2013, 0 85793 908 1, hbk, lvii + 636 pp, £225

Ten years ago, Edward Elgar published a two volume collection of reprinted articles, *The Economics of Poverty and Inequality*, edited by Frank Cowell. The publication of this new volume of reprints, a few of which are also to be found in Cowell's collection, is a symptom of the increasing importance of inequality as a political issue.

Like Cowell's collection, this new volume is a treasure trove. It contains classics such as Lorenz's 1905 'Methods of Measuring the Concentration of Wealth' (- strange how disconcerting it is to see the Lorenz curve, as originally drawn, on a graph with per cent of total wealth along the *horizontal* axis, and per cent of population along the vertical). It also contains more recent material, including Foster and Wolfson's 2010 article 'Polarization and the Decline of the Middle Class'.

As Becker points out in his comprehensive introduction, any intelligent discussion of inequality needs to discuss how it should be defined, how measured, and how evaluated - and particularly how it should be measured - a question addressed by a long section in the introduction and by most of the articles that Becker chooses to reprint. But as Tony Atkinson's 1970 article 'On the measurement of Inequality' points out, measures of inequality that make no reference to an understanding of society's welfare might be quite misleading: hence the importance of the Pigou-Dalton 'transfer principle', which states that we should only use a measure of inequality if it always decreases when a rich person transfers resources to a poorer person.

This principle is satisfied if two income distributions are represented by Lorenz curves that do not cross: and here we can legitimately say that the distribution represented by the curve closest to the straight line diagonal is more equal than the one represented by the curve more distant from the diagonal. Where the Lorenz curves cross – that is, where one distribution is more equal at one end of the income distribution, and the other more equal at the other – then deciding which distribution represents the least inequality is more problematic. A number of the articles tackle this problem. More complex still is the attempt to construct measures of inequality that take account of both income and wealth, and the four papers that discuss such multidimensional inequality measures are understandably amongst the most complex in the volume, both conceptually and mathematically.

Many of the articles require an understanding of mathematical models of the economy, and the reader who is not familiar with the mathematics of economics will find some of the papers hard going. But a number of the articles are more generally accessible, and particularly those in the fourth part of the book, which explore the relationship between inequality measurement and understandings of individual and social welfare: although here too there is often plenty of mathematical notation.

A number of the papers have an eye to the effects of inequality of income or wealth on society, although often implicitly rather than explicitly. The final two papers make an explicit connection between income inequality and the polarization of society. Becker quite correctly titles this section 'Directions for future research on economic inequality', for what income inequality is doing to our society is rightly a cause for concern and therefore an important field for further research.

This final section suggests that perhaps there should have been an additional concluding collection of articles on economic analysis of the effects on inequality of social policy reforms: both those reforms that have been implemented, and those that have not yet been. Tony Atkinson already has three articles in Becker's collection, and if this additional section had been added then it would almost certainly have contained yet more of Atkinson's output: but that would not have been a problem – merely a recognition that Atkinson has contributed substantially both to an understanding of the measurement of inequality and to our understanding of what might be done about it.

It will be of interest to readers of this *Newsletter* that much of the effort that Atkinson has put into the evaluation of the effects on inequality of feasible policy changes has been expended on the proposal for a Citizen's Income.

Nathalie Morel, Bruno Palier and Joakim Palme (eds), *Towards a Social Investment Welfare State? Ideas, policies and challenges*, Policy Press, 2012, xiv + 386 pp, pbk, 1 847 42925 4, £19.99, hbk, 1 847 42924 7, £70

Is the welfare state a cost or an investment? To take two examples: unemployment benefit is a cost; training for employment is an investment.

The 2009 conference and subsequent research project which gave birth to this most interesting book worked with a simple presupposition: that the welfare state of the twentieth century was a social cost welfare state, but that the welfare state of this century will be a production factor, investing in order to reap economic and social benefits for a world very different from that of the last century: hence active labour market policies and a greater emphasis on early years care.

The first chapter charts the early history of the investment welfare state in Sweden during the 1930s, the submergence of that idea by the Keynesian and neo-liberal welfare states, and the more recent resurgence in the form of widespread social investment policy trajectories. The second chapter discusses in depth the evolution of the welfare state from expansion, through retrenchment, and into the new 'investment' paradigm, and shows how countries which have taken this route have found the investment welfare state to be both positive for economic growth and coherent with the emerging knowledge economy. Chapter 3 studies the mix of state, market, family and community in Keynesian, neo-liberal and investment welfare states, and finds the investment welfare state to be both flexible and usefully ambiguous politically.

Chapter 4 asks to what extent OECD countries are developing investment welfare states (Scandinavian countries are, and English-speaking countries are developing cheaper versions), and chapter 5 shows how budgetary constraints have led to cost-cutting and to a market-based welfare state rather than to a social investment one.

The authors then tackle particular policy areas. Chapter 6 discusses such family-friendly policies as parental leave. Chapter 7 examines such different active labour market policies as the availability of training and benefits reduction for non-compliance, and identifies the problem that what the economy needs is upskilling, whereas what it gets is low-skill and no-skill employment and employees. Chapter 8 finds that social investment policies such as education improve both employment rates and the proportion of skilled employment. Chapter 9 shows how important both academic and experience-based learning are going to be, and how important it is that they should connect with each other.

The final chapters look to the future. An ageing population requires investment in intergenerational redistribution; the upheaval of the financial crisis might facilitate an unfreezing of welfare states and a resultant more consistent European social investment welfare state. Climate change requires social policy which promotes sustainability; social cohesion needs to be seen as 'the necessary foundation for the learning economy' (p.347), rather than as a burden; and we need a new economic model to match the emerging social investment welfare state.

The book provides a wide-ranging and intelligent discussion at the European level of an important new paradigm, with an occasional focus on particular countries – usually Scandinavian ones. What we need now is discussion focused on each European country in turn. The UK will provide an interesting case study. Here, social insurance characterised the Keynesian welfare state, and means-tested benefits the neo-liberal one: but what will characterise the social investment welfare state? One possibility of course is universal provision. Take Child Benefit as an example: It is a family-friendly policy; it promotes a flexible labour market (as it doesn't change as employment status or earnings change), and it provides a secure base for family finances in a turbulent economic and social situation. An extension of universal benefits to working-age adults would facilitate learning (because lower marginal deduction rates would make it more worthwhile to seek further training in order to increase one's family's financial position), and it would be family-friendly because it would offer to couples more choice over employment patterns.

The book's direction is the right one. It's a European social investment welfare state that we need: or rather, a global one. So why not a European Citizen's Income? Or even a global one? It's not beyond our capability, and it would be remarkably helpful to an investment welfare state.

David Reisman, *The Social Economics of Thorstein Veblen*, Edward Elgar, 2012, vii + 338 pp, hbk, 0 85793 218 1, £90

The dust jacket suggests that Thorstein Veblen's writings are 'difficult to read and understand'. Perhaps they are, but most of the many passages quoted in Reisman's book are not. 'The institutional structure of society subsists and we live within its lines ... with more acquiescence than dissent' (quoted on p.7). 'The propensity for achievement - the instinct of workmanship – tends more and more to shape itself into a straining to excel others in pecuniary achievement' (quoted on p.54). Advertising shifts 'given articles of consumption from the footing of superfluities to that of necessary articles of livelihood, necessities by conviction of morals and decency rather than by requirement of subsistence or physical comfort' (quoted on p.150).

As Reisman shows, it was the waste at the heart of capitalism that bothered Veblen rather than any exploitation of the workers; and whilst we might now question Veblen's enthusiasm for the Russian revolution – an enthusiasm understandable from within his own context – we shall understand perfectly his perception that aggressive nationalism can trump economic rationality.

Reisman has constructed a coherent structure out of Veblen's thought. Whether that structure is Veblen's or Reisman's must remain an open question, because Veblen's thought, as represented in Reisman's book, could equally well be understood as a somewhat rambling exploration of the fascinating complexity of the institutions of the world of his time. But what *is* clear is that Veblen – correctly, in the view of this reviewer – thought the life of human society to be best understood as a changing network of changing institutions. Reisman shows that Veblen saw himself as a somewhat Darwinian social scientist, attempting to understand the causes of things, and that for him the social caused the economic rather than the other way round. Human interaction therefore 'belongs in the field of the sociologist' (quoted on p.2), and economics belongs in that context, not vice-versa.

This is all rather salutary. It suggests that however much we might reason the economic feasibility and desirability of such social policies as an extension of universal benefits to new demographic groups, if this is not the direction in which society is evolving then we might be wasting our time. On the other hand ...

Re-review

We would not normally publish two reviews of the same book, but Geoff Crocker's review of *Money for Everyone* on www.amazon.co.uk makes some important points that ought to be part of the debate:

Malcolm Torry, *Money for Everyone: Why we need a Citizen's Income*, Policy Press, 2013, xiv + 300 pp, 1 44731 125 6, pbk, £24.99, 1 44731 124 9, hbk, £70

**** Citizen's Income well argued

Malcolm Torry delivers a blockbuster argument in favour of a Citizen's Income to wholly or partially replace current benefits. His book is well-researched, well-informed, well-written, and is articulate and readable. His main argument is that, given widespread acceptance of a benefits scheme of some sort, then a Citizen's Income is by far the best option. Specifically it avoids the disincentives of very high marginal deduction rates of current benefits which create the familiar unemployment and poverty traps. According to Torry, a Citizen's Income would incentivise employment, training, new business formation, women's participation rates, and can even reduce teenage pregnancy in Namibia. It is socially cohesive. It is less expensive administratively, less intrusive into the private detail of people's lives, and less distorting of the markets for labour, goods and services. The Iain Duncan Smith / Steve Webb universal credit comes close, but is based on households rather than individuals as a Citizen's Income would be, and is therefore deficient.

Torry's very thorough presentation is worthy of the LSE tradition to which it belongs, established by major figures such as Richard Titmuss whom he frequently quotes. It offers a substantial social commentary. The excellent essay on poverty in chapter 11 is a classic case. Torry works as a vicar in London, and so has widespread awareness and understanding of the life situation of people with lower income struggling with a range of adversity, and this gives him great insight into the effect of benefits systems in the population. His deep study of the benefit system itself enables him to offer a uniquely powerful synthesis. The strength and extent of his argument for a Citizen's Income appears to render it uncontentious. It is only cynical civil servants whose jobs may be at risk who stand in the way, together with inertia in the political system.

Due to its thorough coverage, the book is long, and sometimes repetitive. The argument on marginal deduction rates is repeated too often. But the main weak point is the lack of attention to economics, since herein lies one of the most powerful objective arguments for a Citizen's Income. Torry's uncertainty in economics appears immediately on page 1 where he writes 'Citizens might spend it (a Citizen's Income) on goods and services, thus creating employment; or they might save it, making lending and investment possible'. The first part of this sentence is thoroughly Keynesian and correct, whilst the second part is thoroughly neo-classical and incorrect. Saving in the Keynesian paradigm does not enable investment, but by reducing demand, reduces investment which businesses plan to meet demand.

Only on page 122 does Torry mention the economics argument for a Citizen's Income, where he presents Stewart Lansley's argument that 'income inequality reduces productivity', so that wages and therefore consumption reduce, leading to the current crisis that only greater equality can resolve. Even this ignores an alternative powerful economics argument that the crisis has been driven by technology increasing productivity, reducing the wage and consumption element of output, raising output GDP above disposable consumer income, which has been corrected with unsustainable credit. According to this argument, the technology-led wage reduction is inevitable and inexorable, and contrary to Lansley's proposal, only a Citizen's Income can replace consumer credit in order to raise consumption to match output GDP. In this model the Citizen's Income would need to be spent rather than saved, perhaps by being distributed on stored value cards with the value expiring over time. It needs however an alternative theory of money, i.e. that money is virtual and its distribution only has to respect output GDP and not be supported by gold reserves or government debt. This removes the need for Torry's argument on the affordability of Citizen's Income – it is output GDP which makes it affordable. These arguments would add considerably to Torry's case. They also dismiss current deficit reduction and austerity policies as the nonsense they are.

Geoff Crocker

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