

BIRG gratefully acknowledge help from the Christendom Trust towards the cost of producing this leaflet.

Published by: The Basic Income Research Group (Charity No. 328198) 102 Pepys Road, London SE14 1SG.

Printed by RAP Ltd, 201 Spotland Road, Rochdale OL12 7AF. Tel: 0706 44981. © BIRG 1989

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Basic Income

1 What is Basic Income?

A Basic Income scheme would phase out as many reliefs and allowances against personal income tax and as many existing state-financed cash benefits as practicable; and would replace them with a Basic Income (BI) paid automatically to each and every man, woman and child.

Basic Income would enhance individual freedom, and would help to: —

- Prevent poverty
- End the poverty and unemployment traps
- Reduce unemployment
- Create a less divided society

The Basic Income attack on poverty is three-pronged:

- A safety net from which no one is excluded
- A platform on which all are free to build
- Tax according to ability to pay

To achieve these aims the first priority is simplification. The new system must be:

- Easy to understand
- Easy to administer
- Easy to automate (minimal case work)

2 How would it work?

Conditional on legal residence. Each month, every legal resident would be automatically credited with the BI appropriate to his or her age. For most adults this could be done through the banking system, for children it could be done through the bank accounts of their parents. For adults without bank accounts special provisions would be necessary. BI supplements would be paid to older people and those with chronic disabilities, but there would be no differences account of sex or marital status, nor on account of work status or contribution record.

Tax-free and without a means test. The BIS would be tax-free and without a means test, but tax would be payable on all, or almost all, other income. This is necessary in order to finance the scheme. The rate of tax would depend on the BI amounts. The higher the BI amounts, the higher the tax rate.

A new, comprehensive income tax. The new tax would replace existing income tax and national insurance contributions. It would be payable at the same rate whether the income was earned or unearned. But the first slice of earned income would probably be tax-free. This is necessary in order to increase work incentives and to assist the Inland Revenue, who would have difficulty in collecting tax on very small amounts of earned income.

The example that follows shows how a BI system would work. The figures used are purely illustrative. With a BI of only £25 some existing benefits would have to be retained, and would be operated separately.

Single person

BI £25 week
unified tax rate 35%
first £20 of earnings tax free

At nil earnings the guaranteed amount is £25 week.

At earnings of £100, net income becomes £97,
calculated thus:

Earnings -	100
Tax + BI	28
= Net income	<u>25</u>
	97

3 How would the BIs be paid for?

A Basic Income scheme would bring together and replace existing expenditures on cash benefits and income tax reliefs. Rationalisation would greatly reduce administrative costs.

Under present law central and local governments operate a host of different systems, all intended to prevent, or relieve, poverty. The expenditure falls into four main categories:

1. Cash benefits, grants and subsidies
2. Income tax allowances and reliefs
3. Rate rebates/community charge benefit
4. Administrative costs

A Basic Income scheme would replace the first two of these expenditures and greatly reduce the third and fourth. The savings from all the benefits, grants and subsidies which could be phased out are hard to estimate.

Spending on social security benefits by the Department of Social Security and Northern Ireland Office is expected to reach £54,000 million by the year 1990-91, to which should be added grants and allowances paid by the Department of Employment and the Department of Education and Science; agricultural subsidies paid under the common agricultural policy; benefits and some of the services financed by local authorities. The cost of all these items cannot be less than £60,000 million. In terms of revenue foregone, income tax allowances and reliefs cost almost as much again. The figures are hard to come by, but the estimated cost is £46,000 million.

Estimated overall cost in 1990-91 of present system:

	£m
Cash benefits, grants and subsidies	60,000
Income tax allowances and reliefs	46,000
Community charge benefit	2,000
Administrative costs	4,000
	112,000

Of course by no means all the £112,000 million could be made available for the BIs. Some administrative costs would continue, nor could the existing systems be abolished over-night. The figures nevertheless show the huge scale of existing expenditures.

Divided between 57 million inhabitants, £112,000 million works out at £38 per person, per week.

4 Integrating tax and social security

A Basic Income scheme would unify the tax and benefit systems. A single government agency would credit the BIs automatically and recoup them through the new income tax afterwards. Instead of different sets of rules for claimants and taxpayers, everyone would be treated alike.

Almost all the revenue from the new income tax would be used for the BIs. At present most people pay income tax at 25% and national insurance contribution at 9%. Adult BIs equal to half the Income Support rate for a married couple (more for older people and people with disabilities) could be financed by a comprehensive income tax at 35% without affecting other spending programmes, *provided* existing income tax allowances and reliefs (including mortgage and pension tax reliefs) were phased out.

The table compares the existing system with an illustrative BI system. The BI amount is assumed to be half the Income Support rate for a married couple, the BI tax rate is 35%, each person can earn £20 a week tax-free.

Single-wage married couple (excluding housing)

1989-90 system		£	Illustrative BI system		£
Earnings		0.00	Earnings		0.00
+ Income Support		54.80	+ BIs (2 x £27.40)		54.80
= Net income		54.80	= Net income		54.80
Earnings (part-time)		10.00	Earnings (part-time)		10.00
+ Income Support		49.80	+ BIs		54.80
- Income tax		0.00	- Income tax		0.00
= Net income		59.80	= Net income		64.80
Earnings (part-time)		20.00	Earnings (part-time)		20.00
+ Income Support		39.80	+ BIs		54.80
- Income tax		0.00	- Income tax		0.00
= Net income		59.80	= Net income		74.80
Earnings		80.00	Earnings		80.00
+ Income Tax		0.00	+ BIs		54.80
- NI contribution		4.19	- Income tax		20.00
= Net income		75.81	= Net income		114.80
Earnings		150.00	Earnings		150.00
- Income Tax		16.47	+ BIs		54.80
- NI contribution		10.49	- Income tax		44.50
= Net income		123.04	= Net income		160.30

5 Six fundamental changes:

1. *The basis of entitlement becomes citizenship*, with the latter liberally interpreted to include all legal residents. Everyone would have a small independent income, whether or not they were in paid employment. This would be particularly valuable to mothers with young children and carers generally.

2. *The tax/benefit unit becomes the individual*. The Bis would be paid to individuals, not families or households. Husbands and wives would be taxed independently. Unlike the existing tax and benefit systems, Basic Income is symmetrical between men and women, married and single. Marriage is neither subsidised nor penalised. The cohabitation rule goes.

3. *All earnings rules abolished*. The BI would be a base on which to build without having to report back to officialdom, and without running foul of the law. The black economy of welfare (claiming and earning) would be decriminalised. Work of all sorts would be encouraged.

4. *Availability for work rule abolished*, under present law young people who stay on at school get nothing. Unemployed people who study or train for more than a few hours a week forfeit the right to benefit, because they are not 'available for work'. With Basic Income this could not happen. Everyone would get the same basic amount. Further and Higher Education, vocational training and re-training would be encouraged.

5. *Unconditional and easy access*, instead of the present maze of regulations, everyone would know their entitlement — and their obligations. Take-up (as with child benefit) would reach nearly 100 per cent.

6. *Living standards of the poorest linked to living Standards generally*. On average, earnings increase $1\frac{1}{2}$ per cent a year faster than prices. But existing benefits are indexed at best to prices, therefore the living standards of the poorest are falling increasingly behind. With Basic Income the revenue from the new income tax would have to be spent on the Bis, therefore the living standards of the poorest would be automatically linked to living standards generally — through the income tax base.

6 Full, partial or transitional?

Some people reject Basic Income on the grounds that it is too expensive. They need to study it more closely.

Full Basic Income (FBI). In an ideal world every citizen would receive a guaranteed income sufficient to cover all their basic needs. In BIRG we call it Full Basic Income, and it is very close to what used to be called Social Dividend. One day it might become feasible, but for the moment it is unlikely to be acceptable, requiring a tax rate on all other income of at least 70%.

Partial Basic Income (PBI). At present it is more realistic to think in terms of Partial Basic Incomes, which by definition are not enough to live on, except possibly for non-householders. PBIs cost much less than FBIs, that is why the new, unified tax rate could be as low as 35 per cent, which compares very favourably with the present system, and puts PBIs firmly onto the political agenda. A combination of age-related PBIs for children and able-bodied people of working age *plus* PBI supplements for older people, people with disabilities and carers is an economically feasible and politically realistic option. A PBI scheme would nevertheless require some existing benefits to be retained. One such is housing benefit.

Transitional Basic Income (TBI). NO BI system could be introduced 'at a stroke'. It would have to be done gradually, on the basis of consensus. At first the Bis would have to be very small, perhaps only £11 a week, and these are called transitional Basic Income. Some people scoff at the idea of a TBI of £11 a week, but it would have an immediate impact, especially if children got the same as adults, and even more so if combined with earned-income tax relief. For a couple with two children an £11 TBI would come to £44 a week, which in 1989 is more than half their Income Support allowances. But unlike Income Support the TBIs would carry no earnings restrictions.

7 What is BIRG?

The immediate reaction of most people on being introduced to BI is one of incredulity. It sounds too good to be true. That is why the *Basic Income Research Group (BIRG)* was founded. Since 1979 the the British public has been bombarded with propaganda in favour of a means-tested welfare state. Euphemisms like 'targeting' are used to describe means-tested benefits, and anything else is written off as 'too expensive'. We in BIRG do not accept that view. We believe that further study is necessary.

BIRG is not a pressure group nor is it aligned to any political party. It was set up in 1984, under the auspices of the National Council for Voluntary Organisations (NCVO) to discover whether the BI approach to tax and welfare is economically and administratively feasible, and whether it could win public approval. Today BIRG is an independent charity.

BIRG's aim is to facilitate and encourage informed debate at all levels, by forming networks, by publication of research findings and other relevant articles in the twice-yearly *BIRG Bulletin*, by media contacts, and by the organisation of conferences, seminars and study groups.

In 1986 BIRG affiliated to the *Basic Income European Network (BIEN)* which it helped to form. BIEN draws its membership from all over Western Europe. It publishes a regular newsletter and organises an international conference every second year. BIRG maintains close links with BIEN.

8 Past programme

Study groups. Some of BIRG's most useful work has been through small working groups. These groups produce discussion papers which are afterwards published in the BIRG Bulletin.

Bis and young people, Bulletin No. 4, Autumn 1985 *Bis and elderly people*, Bulletin No. 6, Autumn 1986 *Implications of 81 for people with disabilities*, Bulletin No. 7, Spring 1988

Seminars and Conferences. BIRG holds regular seminars and conferences, to which all subscribers are invited.

- 1985 *The tax/benefit unit Cash and care?*
International moves toward Basic Incomes
- 1986 *The work ethic*
The costs of working
Basic pensions Family
Budgets
- 1987 *Rights and responsibilities*
BIRG Report-Back Conference
Basic Income and housing
- 1988 *Administration of BI and other integrated systems*
Gainers and losers
BI and claimants: the European context (conference) *BI and women*
- 1989 BI and the new politics of citizenship (conference) *BI and dependency BI and ethnic minorities*

BIRG Bulletin. Published twice a year, featuring a mixture of academic and non-academic articles, selected papers from BIRG seminars and confences, news items from home and abroad, reading lists, book reviews and letters, the BIRG Bulletin is the only journal of its kind in Europe. Much sought after, impeccably produced, it goes to the libraries of both Houses of Parliament, many individual MPs and peers, government departments and academics in the UK and overseas, voluntary organisations, and of course all BIRG subscribers.

9 Present programme

New working groups will be set up, BIRG's network will be extended, the seminar programme will continue and so will the Bulletin. For the rest of 1989 and the early 1990s, the emphasis will be two-fold:

At hOITIG we shall concentrate on the labour market implications of BI, including the case for and against a national minimum wage; the effects of BI on the labour market participation of women, immigrant workers and ethnic minorities; and the need of working mothers for good quality childcare at prices they can afford.

AbfOdd we shall concentrate on the implications of the Single European Market. In November 1989 the European Commission are sponsoring a *European Conference on Basic Incomes*, but some of the Member States do not as yet have the equivalent of Britain's Income Support. Although the EC talks about Basic Incomes, what they mean is unclear. BIRG, working in conjunction with BIEN, will seek to clarify the issues. We shall emphasise the limitations of a safety net that is means-tested and conditional. And we shall argue the case for a small Basic Income-throughout the EEC, with entitlement based on legal residence.

7 0 Further reading

BIRG maintains a bibliography of reading material about Basic Income. For further information write to BIRG. Or start with the following introductory works:

BIRG Bulletins (No. 3 onwards) available from BIRG.

Jordan, B., *The Common Good: Citizenship, Morality and Self-interest*. Basil Blackwell 1989, Hardback £20.00, Paperback £5.50.

Parker, H., *Instead of the Dole*. Routledge 1989, Hardback £40.00, Paperback £12.95.

Purdy, D., *Social Power and the Labour Market: A Radical Approach to Labour Economics*. Macmillan 1988, Paperback £9.95.

Rhys Williams, B., edited by Parker, H., *Stepping Stones to Independence: National Insurance After 1990*. Abredeen University Press 1989, Paperback £4.95.

Standing, G., *European Unemployment. Insecurity and Flexibility: A Social Dividend Solution*. ILO Geneva, 1989.

Walter, T., *Basic Income: Freedom from Poverty, Freedom to Work*. Marion Boyars, 1989. Paperback £7.95.

7 7 How you can help

If you are interested in reform of the tax and social security systems, why not become a BIRG subscriber? The 1989 subscription is £10 for individuals, £5 for the unwaged, and £15 for organisations. Or you can buy individual copies of the BIRG Bulletin. To do either, please fill in the form below, and send it to:

Malcolm Torry
Secretary
The Basic Income Research Group
102 Pepys Road
London SE14 5SG

Or telephone BIRG on 01-639 9838. Your message will be dealt with promptly.

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